# TRADE UNION WAGE POLICY

INSTITUTE OF INDUSTRIAL RELATIONS
UNIVERSITY OF CALIFORNIA

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*By*

ARTHUR M. ROSS

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TO THE MEMORY OF

LEO ROGIN

1893–1947

# FOREWORD

CONSCIOUS POLICY, identified as the "just price," was influential in setting wages in the Middle Ages. The triumph of *laissez-faire* doctrines subsequently led to an emphasis on atomistic market forces—although more in theory than in fact, as Adam Smith recognized. Mass organization of labor and the development of centralized action by employers, formally and informally, more recently has again directed attention toward the importance of policy. A central purpose of organization or joint action, now so common for both workers and employers, is to have an effective policy. In the combat for supremacy between the free market and conscious policy in the determination of wages, the former—however lamentable it may be deemed—has been yielding ground rapidly.

This monograph examines the wage policies of trade unions. The approach is essentially *ex ante*—it views the decisions as seen by the union leaders at the time they are making them. This leads to a concentration on the political pressures which converge on the union leader—the immediate determinants of action. The period of observation, as Arthur Ross points out, has been one of new and rival unionism and high or rising levels of employment. Political considerations have been of the utmost importance, and economic ones, temporarily at least, not so consequential.

Subsequent studies by the Institute staff will turn attention toward the wage policies of employers and the wage decisions of arbitrators. Several case studies of union and employer wage policies in different collective bargaining systems are now being conducted. A recently published monograph, by Nedra Bartlett Belloc,[1] was concerned with the changes in the wage structure of California during the war and postwar periods of government control and full employment. Two other projects nearing completion are devoted to an investigation of the internal wage structures of the West Coast aircraft and longshore industries.

Other inquiries into the causes and consequences of wage rates are contemplated.

The Institute is conducting research, as well, in the two related fields of (1) collective bargaining processes and results and (2) labor market structures and operations.

Chapters ii through vi of this present monograph have been or shortly will be published elsewhere, in substantially the same form, and permission to reproduce is gratefully acknowledged. Chapter ii appeared in the *American Economic Review,* September, 1947; chapter iii in the

[1] Nedra Bartlett Belloc, *Wages in California—War and Postwar Changes* (University of California Press, 1948).

*American Economic Review,* December, 1947; chapter iv in the *Southern Economic Journal,* January, 1948; and chapter vi in the *Quarterly Journal of Economics,* February, 1948; chapter v will appear in the *Proceedings* of the Pacific Coast Economic Association for 1947.

The Research and Reading Committee of the Institute (Professor Harry R. Wellman, Director, Giannini Foundation, Professor E. T. Grether, Dean of the School of Business Administration, and Professor Paul S. Taylor, Department of Economics) has given generously of its time in reading and commenting upon the manuscript.

CLARK KERR, *Director*
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# PREFATORY NOTE

*Trade Union Wage Policy* appears as an item in the collaborative research program of the Institute of Industrial Relations at Berkeley. I have worked in close coöperation with Professor Clark Kerr and Mr. Lloyd Fisher, and the ideas expressed in the monograph are theirs as well as mine.

Professor R. A. Gordon and Professor William Fellner have permitted me to take undue advantage of their interest in the study and make immoderate demands upon their time. Their criticisms and suggestions have been extremely useful.

I am indebted also to many union and management representatives for insights into how collective bargaining works.

ARTHUR M. ROSS

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# I. INTRODUCTION AND SUMMARY

IF IT IS good procedure to move from the known to the unknown, the best point of departure for the present study is a familiar and well-accepted fact: we no longer have a satisfactory theory of wages.

Two generations ago, economists were assured that they had, in the marginal productivity theory, not only an explanation of the way in which wages are determined, but also a description of a natural and harmonious system of distributive justice.[1] Wages were the price of labor, fixed through the interaction of supply and demand in the labor market. Labor was apportioned among various lines of employment in such a manner as to maximize total output and was compensated in accordance with its marginal contribution.

Even then there were skeptics—socialists, institutionalists, and proponents of the "bargain theory of wages"—yet the doctrine was not seriously challenged in academic halls. Early modifications were made handily and appeared to be in the nature of refinements and improvements. It was readily conceded that the long-run labor supply, in western societies at least, is governed by social customs regarding the size of the family and the employment of women and children. To account for the conspicuous absence of a single price, various compartments were described, within which mobility was regarded as great, and between which, as little. Thus, occupational differentials were explained by the existence of noncompeting groups. Geographical differentials were explained by the immobility of labor between nations, regions, and labor market areas.

By now, however, so many attacks have been encountered and so many retreats have been made that we can hardly claim to have a theory at all. One line of retreat has been to reformulate the marginal productivity doctrine in such a manner as to claim less than formerly had been claimed. If Mr. Robertson's statement that wages are not determined, but only measured, by marginal productivity was a milestone along this path,[2] then Mr. Machlup's latest version has surely brought us to the last mile.[3] For the system is now merely a structure of definitions which cannot be disproved, and which, in turn, cannot prove anything. Would it not have been preferable to take the position that the marginal productivity theory explains why wages are higher in the United States than in Italy, and higher in 1947 than in 1847, but cannot offer any significant

[1] John B. Clark, *The Distribution of Wealth* (New York, 1899).

[2] D. H. Robertson, "Wage Grumbles," in *Economic Fragments* (London, 1931), pp. 42–57.

[3] Fritz Machlup, "Marginal Analysis and Economic Research," *American Economic Review*, 36 (September, 1946): 519–554.

insight whether or not the manager of the ABC Manufacturing Company will lay off workers as a result of a 10 per cent wage increase? A second line of retreat has taken the form of identifying a multitude of rigidities, imperfections, deviations, and discontinuities in labor supply and demand in order to account for some of the obtrusive facts of industrial life. Most of the interesting phenomena are now to be found among these aberrations. Should we not face the question whether or not all the significant forces affecting wages under collective bargaining can be compressed into a supply-and-demand explanation?

Anyone who teaches labor economics has a great deal to say about wages. But when he approaches the central problem how wage rates are established, he cannot help recognizing the extent to which it is necessary to talk around the problem and resort to such devices as wages in theory versus wages in practice, upper and lower limits with an uncharted no man's land between, a catalogue of imperfections in the labor market, and so forth. Clearly the time has come to begin the task of theoretical reconstruction.

## I

Among the obtrusive facts of industrial life, the trade union has been perhaps the most difficult to absorb into the theory of wages. In order to fit the union into a supply-and-demand theory, we have had to regard it as a seller in the market dispensing labor supply. The wage objectives of the union as a seller of labor have been variously dealt with. Marshall regarded the upper limit of the wage bargain as established by the necessity of retaining a sufficient supply of "capital and business power" in the industry.[4] Some authors describe union strategy as essentially defensive, designed to redress the unequal bargaining power of the individual worker and to restore the wage rate more nearly to the level which would have prevailed in a competitive market. Others, following the Webbs, conceive of union policy as the establishment of a "standard rate" as a bulwark against the "higgling of the market." In Hicks's *Theory of Wages,* the union strives to obtain the highest wage rate possible, in view of the relative withholding power of workers and employers, without substantial concern over the danger of unemployment.[5] More elaborate systems have been constructed by such authors as Edgeworth, Pigou, Hicks, and Tintner, who deal with union and employer wage policy as an exercise in bilateral monopoly.[6] The union is concerned with quantity

[4] Alfred Marshall, *Principles of Economics* (8th ed.; London, 1930), p. 627.

[5] J. R. Hicks, *The Theory of Wages* (London, 1932), p. 154.

[6] F. Y. Edgeworth, *Mathematical Psychics* (London, 1881), Pt. II, pp. 15–56; A. C. Pigou, *Principles and Methods of Industrial Peace* (London, 1905), pp. 210–227; J. R.

sold as well as with price and pursues the objective of maximum total wage income.[7] Upper and lower limits of the wage bargain are represented; the final wage rate lies indeterminately within these limits and rests upon the balance of bargaining power. Perhaps the most complete of the purely economic formulations has been made by Dunlop, who surveys a number of possible objects of maximization, considers a variety of competitive situations in addition to bilateral monopoly, and analyzes the determinants of bargaining power.[8] Inasmuch as Dunlop's formulation is the most complete and one of the most recent, it is examined at some length in chapter ii of this monograph.

Thus, the treatment of union wage policy in economic literature presents a congeries of hazily related themes, operating under different assumptions and influenced by different social and economic preconceptions. We are reminded of the complaint by Hamilton and May that "there are just as many theories of wages, reputable and disreputable, as there are books and articles on the subject."[9] Nevertheless, we find in each instance a rudimentary concept of a labor monopoly seeking to achieve some single, quantitative objective.

Each of the listed objectives is open to serious doubt. It is clear from the situation in the coal and railroad industries that unions do not regard it as their obligation under all circumstances to protect the supply of "capital and business power"; one often hears that "a living wage is the first claim upon the proceeds of an industry." To describe the objective as reducing inequalities and restoring a competitive wage rate offers no clue to union behavior in the usual situation in which there is no competitive rate. Similarly, emphasis upon the standard rate as a bulwark against wage-cutting is more in the nature of espousal than explanation. Many unions do not have a standard rate, but prefer to charge what the market will bear by classifying employers according to their ability to pay; and almost all unions are more interested in the process of achieving uniformity than in uniformity itself. In any case, the doctrine of the standard rate does not explain the particular level which is chosen as a standard.

To state that the union seeks the highest possible wage is true in a

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Hicks, "Bilateral Monopoly," in "Annual Survey of Economic Theory: The Theory of Monopoly," *Econometrica,* 3 (January, 1935): 1–20; Gerhard Tintner, "A Note on the Problem of Bilateral Monopoly," *Journal of Political Economy,* 47 (April, 1939): 263–270.

[7] Professor William Fellner has a formulation in which the union strives for the highest rate rather than for the highest wage income. "Prices and Wages Under Bilateral Monopoly," *Quarterly Journal of Economics,* 61 (August, 1947): 503–532.

[8] John T. Dunlop, *Wage Determination Under Trade Unions* (New York, 1944).

[9] Walton H. Hamilton and Stacy May, *The Control of Wages* (New York, 1923), p. 103.

formal sense, but does not define the limited objectives established in particular cases nor explain the practical decisions made in the bargaining process. It does not permit us to analyze the behavior of many unions which are virtually in a position to set wage rates unilaterally. As already mentioned, the bilateral monopoly approach will be criticized in detail in a later chapter. It will suffice at this point to say that the union is not a seller of labor and is not mechanically concerned with the quantity sold, and that the upper and lower limits of bilateral monopoly theory have no more than a superficial correspondence with the union's initial demand and the employer's initial offer in collective bargaining. As a matter of fact, many of the most interesting questions concerning union behavior cannot be answered by any strictly economic analysis—why the most compelling wage comparisons often have so little to do with labor market competition, why unions strike over small differences, why some wage differentials are ignored although others are attacked, why it is important to unions that they achieve higher real wages through higher money wages, and so on.

II

Are questions of this kind significant? Marshall thought not. He said that "trade combinations and . . . alliances and counter-alliances among employers and employed . . . present a succession of picturesque incidents and romantic transformations, which arrest public attention and seem to indicate a coming change of our social arrangements now in one direction and now in another; and their importance is certainly great and grows rapidly. But it is apt to be exaggerated; for indeed many of them are little more than eddies, such as have always fluttered over the surface of progress. And though they are on a larger and more imposing scale in this modern age than before; yet now, as ever, the main body of movement depends on the deep silent strong stream of the tendencies of normal distribution and exchange. . . ."[10]

Surely the same judgment would not be made today. It hardly requires demonstration that collective bargaining decisions are no longer eddies fluttering over the surface of progress.

It is a commonplace that wage rates are now determined by conscious human decision rather than by impersonal market forces. In a formal sense, this has always been true; even the most impersonal forces can operate only through human agencies. A more significant question is whether the human agencies are the servants or the masters of the market forces. In an unorganized economic society, they are likely to be the servants. But there is a persistent tendency toward rational organization in sufficient strength to achieve a degree of mastery. Prominent in many

[10] Marshall, *op. cit.*, p. 628.

phases of economic life, rational organization operates not only through private associations, but also through the coercive authority of the state.

Mastery of market forces requires the power of consolidated decision. A little decision is merely the choice to be swept along in a stream; a big decision can redirect the stream itself. Hence the large business unit, which endeavors to control supply, create demand, and shape the institutional environment in which it does business. Hence also the labor union, and the other evidences of consolidated decision-making power over the "terms and conditions of employment."

There is real decision-making power in collective bargaining today. Negotiated wages vitally affect the allocation of labor and other productive resources, the level of prices, and the size of national income. It is not necessary to look back to Marshall's day to appreciate the change which has taken place. Until recently, the specter of nonunion competition hovered over the bargaining table and severely limited the extent to which union wages could rise without disastrous consequences; this was a major theme of Slichter's *Union Policies and Industrial Management,* which was published in 1941 and was based primarily on the experience of the 1920's and 1930's. By 1946 more than 80 per cent of the wage earners were covered by union agreement in each of the following industries (among others): agricultural equipment, aircraft, aluminum, cement, men's clothing, women's clothing, glass and glassware, leather tanning, meat packing, newspapers, nonferrous metals, rubber, shipbuilding, basic steel, local transit, coal mining, construction, longshoring, maritime, metal mining, motion picture production, railroads, and trucking. The unionization of one industry does not eliminate the competition of substitute products or services; however, the substitute products themselves may well be produced in an organized industry. The steel, aluminum, and nonferrous metals industries are all more than 80 per cent organized; the same is true of the railroad, maritime, trucking, and airline industries.[11] Slichter stated in 1947, "the rise of unions constitutes an epoch-making change in the economy—quite comparable to such institutional changes as the rise of the modern credit system or of the corporation. Unions are no longer simply organizations which put workers in a moderately better bargaining position in dealing with employers. They are seats of great power. . . ."[12] Whether this power can be exercised responsibly under present-day circumstances is open to doubt; but in any case, the power is there.

Union wage policy and the negotiated settlement acquire further sig-

[11] "Extent of Collective Bargaining and Union Recognition, 1946," *Monthly Labor Review,* 64 (May, 1947): 765–770.

[12] Sumner H. Slichter, Preface to *The Challenge of Industrial Relations* (Ithaca, 1947), p. v.

nificance by virtue of the trend toward fewer and more comprehensive wage decisions. Although we have nothing approaching a national wage policy or the machinery for establishing one, we are moving beyond the stage of atomistic bargains into an era of consolidated settlements. Recent years have seen a considerable development of area-wide, region-wide, and nation-wide agreements between trade unions and employers' associations; and the tripartite Labor Committee of the Twentieth Century Fund recommends the extension of market-wide bargaining.[13] Even in the absence of integrated bargaining structure, comprehensive settlements result from industry-wide strikes and union-wide wage programs. But the most powerful influence linking together separate wage bargains into an interdependent system is the force of equitable comparison. This force does not spread evenly over the entire system, but runs in limited circuits, the most prominent of which are described in chapter iii. Even if big unions were broken up into little ones, as some advocate, equitable comparison would still have a pervasive effect.

Finally, it is desirable to reckon with the possibility of some form of full-employment guarantee on the part of the federal government. Such a commitment would obviously attach additional importance to the results of collective bargaining. There has been considerable speculation whether a trade union could or could not be expected to exercise "restraint" under a full-employment guarantee, and whether prices and wages would or would not be pushed up at the expense of the general economy through tacit collusion between management and labor. Some analysts have suggested that compulsory arbitration of wage disputes or an authoritative national wage policy would be required to protect the government in the observance of its commitment. Others are hopeful that private collective bargaining would remain feasible.[14] It is highly appropriate to analyze this problem, but additional random speculation will not be fruitful. What is most needed is an informed prediction of union behavior in the economic and political circumstances of a full-employment policy, based upon an adequate understanding of the major controlling influences.

[13] S. T. Williamson and Herbert Harris, *Trends in Collective Bargaining* (New York, 1945), p. 232.

[14] For discussions of wage problems under a full-employment program, see William H. Beveridge, *Full Employment in a Free Society* (Amer. ed.; New York, 1945); Alvin H. Hansen, *Economic Policy and Full Employment* (New York, 1946); A. C. Pigou, *Lapses from Full Employment* (London, 1945); G. D. N. Worswich, "The Stability and Flexibility of Full Employment," in *The Economics of Full Employment* (Oxford, 1944), pp. 59–84; Alfred Braunthal, "Wage Policy and Full Employment," *International Postwar Problems,* 3 (January, 1946): 31–50; and Eugene Forcey, "Trade Union Policy Under Full Employment," *Canadian Journal of Economics and Political Science,* 2 (August, 1946): pp. 343–355.

III

The major influences controlling union wage policy are largely the same as the major influences controlling union behavior in general. To understand them, we must understand the union itself—what kind of organism it is, how it functions, and what is the role of leadership. Where should we turn for such an understanding?

Among all the participants in economic life, the trade union is probably least suited to purely economic analysis. It may be that the particular form of rationality assumed in traditional economic theory can properly be assigned to the individual entrepreneur and even to the corporation, which after all is a legal individual. In any case it is not necessary to argue that point here. But a trade union is preëminently a group, a collectivity. Psychologists have been insisting for more than half a century that group behavior is fundamentally different from individual behavior. The trade union is not only a group, but an institution as well; it leads a life of its own separate and distinct from the lives of its members. Its problems are not merely those of the particular individuals it happens to represent at one point of time.

If we still wish to make a theoretical analysis of union behavior, we must operate within a broader frame of reference. Even the most primitive clichés of politics, sociology, and psychology throw a good deal of light on the problem. This is not to suggest, however, that economic analysis be supplanted by political, sociological, or psychological analy sis. What is needed is to break down the walls between the separate disciplines of social science which have hitherto dealt with separate aspects of social behavior. When society was more loosely constituted and social forces were organized on a smaller scale, these various aspects of behavior could operate more or less independently in their own spheres. It was possible to talk about such fictions as the economic man and the political man. But today it must seriously be doubted whether there is any such thing as purely economic activity, purely political activity, or even purely religious activity. No group can maintain significant economic power in present-day society without political influence. To acquire political influence, psychological techniques are indispensable. Effective psychological techniques are directed toward manipulating sociological relations and tensions. And so on. If different aspects of social behavior have now become integrated, does it not follow that the separate disciplines of social study must be brought together correspondingly? Otherwise, we have partial sciences, compared by Ruskin with a science of gymnastics which assumed that men had no skeletons.[15]

[15] Quoted in Charles A. Beard, *The Economic Basis of Politics* (New York, 1945), p. 6.

However, it does not require any profound theoretical analysis to understand union wage policy, or employer wage policy, for that matter. Walter Savage Landor has said that "the seeds of great events lie near to the surface." Intelligent union and management representatives understand well enough why their decisions are what they are. They could not succeed without a fairly good notion why the opposing party behaves as he does. This understanding is accessible to the student of industrial relations, if only he is willing to accept it on its own terms and refrain from imposing an alien logic upon what he finds. The greatest danger is that the union and employer representatives will attempt to supply an answer in the economist's terms rather than to identify and describe the controlling pressures as really experienced. This is not deception but self-delusion. Both parties are anxious to appear farsighted and responsible; it is all too easy to look back upon a previous wage decision and ascribe it in one's own mind to the competitive situation in the industry or to the elasticity of demand for labor. The union leader, not yet fully accepted as a useful citizen, is peculiarly addicted to reverence toward the canons of conventional business morality. This is why mailed questionnaires, hypothetical questions, and other devices of large-scale investigation have been avoided in this study. Research of this kind cannot feasibly be conducted wholesale.

IV

Where is the wage policy of unions to be found? We have already suggested that it is not to be found in the mechanical application of any maximization principle. It might be best to dispose of some additional false leads which are inviting at first blush but not rich in explanatory value.

*a*) Wage policy is not explained by the hortatory slogans of the labor movement—a fair day's pay for a fair day's work, a living wage, a health and decency wage, a productivity wage, and so forth. These are the slogans under which the "men of labor" are mobilized in disciplined ranks and led into battle, and by means of which their general aspirations are explained to the outside world; they are no guide, however, to the strategy and tactics which are adopted in pursuing these aspirations, or to the limited objectives which are staked out at particular times and places. Samuel Gompers' remark that labor is seeking "more and more and more" has often been quoted as the epitome of union wage policy. The remark is undoubtedly correct, but again it is no clue to the eminently pragmatic decisions which are made in the day-to-day conduct of union affairs. Nor is any clue to be found in various public pronouncements made in a "responsible" vein: e.g., that the real objective is a fair distribution of income; or that the only true source of higher wages is

greater production. These are equivalent to defining "service" as the objective of business enterprise. An occasional result should not be confused with an underlying purpose.

*b*) An attractive expedient is to approach the problem through the formal arguments and documents of wage determination. Preliminary briefs, supplementary briefs, concluding briefs, rebuttals and surrebuttals, transcripts of hearings and negotiations, supporting statistical studies, fact-finding reports and arbitration awards are available in great quantity. They are constructed with much care and elaboration, are pitched on a high ethical level, and ostensibly are designed to focus the soundest principles of economic policy upon the problem at hand. Generally the arguments are cast in terms of a standard group of "wage-determining factors," including changes in the cost of living, budgetary requirements of a living wage, the "going rate" in comparable establishments, trends in productivity, and the employer's ability to pay. These criteria have changed very little since before the First World War.[16] They have been incorporated in legislative and administrative regulations governing the adjustment of wages, such as the Railway Labor Act of 1920 and the wage stabilization standards of the National War Labor Board.

One is tempted to conceive of trade union wage policy as the application of these customary criteria of wage determination. If this formulation were adopted, the union's primary objectives would be listed as maintaining the real wage, securing a fair living wage, insisting on the going rate, sharing in the benefits of increased efficiency, and so on.

However, there are several difficulties with a formulation of this kind. The "wage-determining factors" are often mutually contradictory; for example, the budgetary requirements of a living wage may be incompatible with the employer's ability to pay. A given criterion, such as the cost of living, will be emphasized by the union at one stage in the business cycle and by the employer at the opposite stage. In specific cases, all the conventional standards are generally invoked; but some have a real weight in the resulting determination, whereas others have no weight at all. The most elaborate logical and statistical demonstrations are presented in support of arguments which are wholly devoid of effect; but often the crucial factor has no place in the oral arguments and written documents of the proceeding—including the arbitrator's award. In fact,

[16] See Z. Clark Dickinson, *Collective Wage Determination* (New York, 1941); George Soule, *Wage Arbitration* (New York, 1928); Herbert Feis, *Principles of Wage Settlement* (New York, 1924); and J. N. Storkett, Jr., *The Arbitral Determination of Railway Wages* (Boston, 1918). In recent years aggregative analysis has been employed to demonstrate the requirements of a national wage policy compatible with full employment at stable prices.

there is probably no field of social inquiry in which the written word is more misleading than the negotiation and adjudication of wage rates. The limited relevance of formal exposition in wage determination is well recognized by union and employer representatives, as well as by many impartial arbitrators.

It is not contended that the customary criteria have no significance in the wage setting process. They serve as vehicles for the transmission of pressures, channels for the communication of facts, and symbols of allegiance to high ethical standards and sound economic principles. But it would be naïve to suppose that they can be taken as the starting point for examining wage policy.

*c*) Union wage policy in the United States is not substantially affected by anticapitalist ideologies. Ideological differences exist among unions, of course, and particularly among union leaders and the minority of articulate members; there are right and left wings, Democrats and Republicans, Communists and anti-Communists. These differences give rise to a certain amount of factional conflict, and occasionally provide a motive for employers to favor one union over another. They affect wage determination in the same manner as union leadership rivalries of any kind affect it. However, it does not follow, and is not generally true, that variations in ideology are associated with differences in wage policy. As a matter of fact, the Amalgamated Clothing Workers, with a strong Socialist tradition, have shown more concern for the healthy survival of private enterprise in the clothing industry than the United Mine Workers, with arch-Republican leadership, have shown in the coal industry. The "left wing" leadership of the United Electrical Workers embarrassed the "right wing" leadership of the United Automobile Workers in 1946 by settling with the General Motors Corporation for a wage increase of 18½ cents when the Auto Workers were holding out for 19½ cents. During the same year, the "left wing" National Maritime Union agreed to a wage increase of $17.50 per month, but the "right wing" Sailors Union of the Pacific went on strike in order to force approval of larger increases by the National Wage Stabilization Board. The fact is that all important American trade unions should be classified as "business unions,"[17] in the sense that their practical wage decisions are predicated upon indefinite prolongation of capitalistic economic organization. If capitalism is supplanted in the United States, it will not be over the wage issue.

There is also a political contest between unions and management, turning on the possession of certain disputed areas of sovereignty in the control of the employment relationship. This controversy over "mana-

[17] See R. F. Hoxie, *Trade Unionism in the United States* (New York, 1917), pp. 45–46.

gerial prerogatives" and "union rights" undoubtedly affects the wage bargain, because wages are often manipulated in order to attach the loyalty of rank-and-file workers and the approval of the general public. Here again, however, the contest is carried on within the framework of a private enterprise system. What is more, those unions which have most successfully invaded the disputed areas of sovereignty (through acquiring the closed shop, control over technological change, and so forth) have also become the most prominent centers of political conservatism in the labor movement. This fact sheds a great deal of doubt over the assertion that the capitalistic order is threatened by the controversy over "prerogatives."[18]

American trade unions are business unions, and their chief business is collective bargaining. The union at work is the union negotiating a contract. If this be true, then union wage policy can best be understood by examining the operating decisions which are reached in the course of the bargaining process. These decisions are the proof of the pudding. They are made "when the chips are down" and reflect, more than anything else, the real determinants of policy.

Operating decisions are required at various points in the bargaining process. Should the wage provision of the agreement be reopened? What should be the union's initial demand? Should the employer's initial offer be accepted? What should be the union's compromise demand, and should the employer's compromise offer be accepted? Should the union consent to arbitrate? Should a strike be called? Should the strike be terminated on the basis of a mediated settlement, or should it be carried on until the employer capitulates or the union disintegrates? Union wage policy is found in bargaining decisions; determinants of policy are the influences bearing upon these decisions.

To be sure, this is not a lofty definition of policy. Collective bargaining, we are frequently told, is essentially a "pressure game"; and so it is. Let us accept it as a pressure game, recognizing that it is not very different from numerous other phenomena in economic and political life. If our definition is not exalted, at least it is realistic; in the present state of affairs, it is difficult to see how any more pretentious definition of policy could have much meaning.

[18] "If unions are permitted to participate in management without responsibility for sharing losses, demands will know no limit. This will lead to profitless business operations and the closing of plants. In order to secure the needed production, the next step would naturally be 'socialization' with the government operating the business. In fact, some of the demands for labor sharing in management are undoubtedly made for the purpose of preventing the functioning of the present economic system." National Association of Manufacturers, *Should Labor Be Given a Direct Share in the Management of Industry?* (New York, 1946), p. 21.

The American trade union, being essentially pragmatic and having no well-defined role in society as yet, is peculiarly subject to pressures. The task of the union leader is to reconcile these pressures in such a manner as to serve the paramount objective of "building the union." The following chapters attempt to identify the major controlling influences and describe the union leader at work in the fascinating process of collective bargaining.

It is hoped that this approach will not seem unfair to the union leader. Of course, he has other ambitions for himself aside from political advancement and other hopes for the union aside from institutional survival. He believes in unionism as an organ of democracy and as an instrument of social justice. He hopes that the process of collective bargaining will secure for the workers a larger proportion of the national product and facilitate high levels of employment and real income. But these things are not within his control. His job is to make an agreement with a particular employer, or group of employers, covering a particular group of workers for a certain short period of time. When the time comes to negotiate and sign the agreement, the total national product and the total volume of employment are pretty remote, but the surrounding political pressures are urgent and immediate. The case might be different if we had a master wage bargain covering the whole economy; but even the largest and most influential bargains are applicable over only a minor segment of the economy. If union wage policy is parochial and particularistic, it is not because of any lack of enlightenment on the part of leaders, nor can it be cured by any amount of homiletic preachment.

## V

The central proposition, then, is that a trade union is a political agency operating in an economic environment. In the following five chapters I have tried to establish this proposition and to investigate some of its implications. These chapters are essentially a group of essays rather than a balanced theory of wage determination. It seemed advisable at this stage to concentrate on some of the factors which have received too little attention in our thinking about industrial relations, exploring them in this preliminary fashion and reserving until later the task of constructing a "model" which would give proper and proportionate weight to all the factors. If the impression is given that labor supply and demand in a quantitative sense are regarded as having no bearing upon collective wage determination, this is the reason. It goes without saying that a purely political formulation would be just as unsatisfactory as a purely economic formulation, and that just as many unanswered questions would have to be explained away as the result of irrational behavior and other imperfections.

In other words, the union as a political agency has been emphasized at the expense of the economic environment in which it operates, not because economic influences are considered unimportant—for they are highly important—but because they have been dealt with more extensively by other writers.[19] Moreover, a study of employer wage policy will be conducted in the near future. Since the employer is more concerned with cost-price-quantity relationships than is the union, they can be examined in detail in the later study.

VI

It might be advisable, however, to indicate briefly at this point the connection which I conceive to exist between the underlying economic influences present in every case and the political pressures focused upon the union leaders in the bargaining process. A number of influences are described in the literature: labor cost as a percentage of total cost; competitive conditions in markets for the product and for complementary and competitive factors of production; the extent of nonunion competition; the profit position of employers; shifts in consumer demand; technological changes; and cyclical fluctuations in prices, output, and employment. These are frequently listed as determinants of the union's economic bargaining strength.

That they do affect the union's bargaining strength, in the sense of its ability to win concessions from employers, is clear enough. Any full-blown theory of collective wage determination would have to give major emphasis to an analysis of bargaining power as defined in this sense. But

[19] See Sumner H. Slichter, *Union Policies and Industrial Management* (New York, 1941); Richard A. Lester, *Economics of Labor* (New York, 1941); John T. Dunlop, *Wage Determination Under Trade Unions* (New York, 1944); Richard A. Lester and E. A. Robie, *Wages Under Regional and National Collective Bargaining* (Princeton, 1946); Z. Clark Dickinson, *Collective Wage Determination* (New York, 1941); John T. Dunlop and Benjamin Higgins, "Bargaining Power and Market Structures," *Journal of Political Economy*, 50 (February, 1942): 1–26; Joseph Shister, "The Theory of Trade Union Wage Rigidity," *Quarterly Journal of Economics*, 57 (August, 1943): 522–542; idem, "The Locus of Union Control in Collective Bargaining," *ibid.*, 60 (August, 1946): pp. 513–545; idem, "A Note on Cyclical Wage Rigidity," *American Economic Review*, 34 (March, 1944): 111–116; Martin Bronfenbrenner, "Economics of Collective Bargaining," *Quarterly Journal of Economics*, 53 (August, 1939): 535–568; Solomon Barkin, "Industrial Union Wage Policies," *Plan Age*, 1 (January, 1940): 1–15; Harry A. Millis, ed., *How Collective Bargaining Works* (New York: Twentieth Century Fund, 1942); S. E. Hill, *Teamsters and Transportation* (Washington, 1942); Willliam Haber, *Industrial Relations in the Building Industry* (Cambridge, 1930); G. L. Palmer, *Union Tactics and Economic Change* (Philadelphia, 1932); W. H. McPherson, *Labor Relations in the Automible Industry* (Washington, 1940); McAlister Coleman, *Men and Coal* (New York, 1943); George W. Taylor, *The Full-Fashioned Hosiery Workers* (Philadelphia, 1931); H. J. Lahne, *The Cotton Mill Worker* (New York, 1943); E. P. Schmidt, *Industrial Relations in Urban Transportation* (Minneapolis, 1937); and many other works on collective bargaining in particular industries.

the term is often used in another sense, as being principally affected by the elasticity of demand for labor. For example, Shister states that " 'bargaining power' may be divided into three elements: (*a*) the elasticity of demand for the union labor, (*b*) the quality of union representatives, (*c*) the ability to strike successfully."[20] He discusses importance of labor cost, elasticity of substitution of capital for labor, and price rigidity in the product market as affecting elasticity of demand for labor.

"Elasticity of demand" expresses a price-quantity relationship. When the term is used as a blanket designation for a multitude of economic influences, it carries the inference that these influences are important to the union because they determine the amount of labor it can sell at various rates of pay. This implies, in turn, that the wage-employment relationship is the crucial criterion of union bargaining decisions, and that the wage bargain is essentially a wage-employment bargain. It will be argued later, however, that the union is not automatically or continuously concerned with the quantity of labor sold; and further that the typical wage bargain (with certain significant exceptions) is necessarily made without consideration of its employment effect.

The real significance of the economic influences, I am convinced, is to be found elsewhere than in a continuous functional relationship between wage rate and employment level in the bargaining unit. (It is not necessary to decide here whether or not such a relationship does exist.) The economic environment is important to the unions at the second remove: because it generates political pressures which have to be reckoned with by the union leader. The effect of any given change depends upon how it fits into the general constellation of pressures. Such economic changes as a shift in consumer demand and a contraction of economic activity are particularly influential upon the relationship with the employer because they condition his attitude: how strongly he will oppose a wage increase, how vigorously he will insist on a wage cut, under what circumstances he will accede to a strike with its attendant losses, or make an attempt to break the union, or move into another area, or leave the industry altogether.

The much-debated question of union wage policy during a depression will serve as an example. Whether a cut in wages will raise the level of employment, or mitigate the decline in employment, need not be decided here, because ordinarily the question is not considered in these terms by the union leader. It may be virtually taken for granted that the employed members will oppose a cut and will have greater weight in the union than the unemployed.[21] What becomes important is the extent to which

[20] Shister, "The Theory of Union Wage Rigidity," p. 530.

[21] However, in some industries it is common for union members to work below the scale by secret agreement with the employer.

the employer insists on it. As Dunlop has shown, the employer is likely to be most insistent in that sector of the economy where employment has declined the least. Summarizing his analysis of wage reductions in the 1929–33 depression, Dunlop states, "The net result is that in the sector of the economy in which wage reductions typically take place first, two separate pressures must be identified. Not only are labor costs relatively more important, but price declines in the product market (attributed largely to the character of competitive conditions) tend to force wage decreases. The decline in product prices is the more important influence.... The central theme is that declines in product prices and not unemployment constitute the effective downward pressure on wage structures.... Wages fell last (and probably least)... in the sector of the economy in which unemployment was clearly relatively greatest...."[22]

Thus, it is the employer rather than the unemployed or potentially unemployed worker who forces the decision in the normal case. From the standpoint of the union, the purpose of agreeing to the cut is to maintain the bargaining relationship on as satisfactory a basis as possible. What appears as a danger is not that employment will fall off but that the employer will become hostile. It is the loss of friendly relationships, bargaining units, and collective agreements, rather than the loss of jobs, which is most to be avoided. Noting that many unions accepted wage cuts in the 1921–22 depression, Wyckoff remarks, "The question however arises as to whether the wage reductions were not more the result of a policy of buying union security with wage cuts, rather than a calculating concern for the general economic situation in the industry."[23]

It is submitted that these considerations can be compressed into "elasticity of demand" only if the term is stripped of its essential quantitative content. As seen by the union leader, the problem of depression wage policy is qualitative rather than quantitative.

Much the same can be said for other aspects of the economic environment which affect union wage policy at the second remove. For example, a union's economic bargaining power may vary considerably between one group of employers and another, because of differences in the strategic position of union workers, the profit rates of employers, and the importance of wages as an element in costs. Should corresponding variations in wage rates be introduced? In casual industries, such as longshoring and construction, the union is likely to insist upon a standard wage. Workers move frequently from one employer to another and would object to continual changes in their hourly rates of pay. The problem of assigning workers through the union's hiring hall would be

[22] Dunlop, *Wage Determination Under Trade Unions*, pp. 145, 146, and 148.

[23] V. J. Wykoff, *The Wage Policies of Labor Organizations in a Period of Industrial Depression* (Baltimore, 1924), p. 99.

greatly complicated. Where the employment relationship is more stable, however, the union is likely to classify employers on the basis of differences in ability to pay. Thus, printing tradesmen in the San Francisco Bay area (as elsewhere) receive higher rates of pay in newspaper plants than in job shops. Milk-wagon drivers receive more than ice-wagon drivers. Theater janitors are better paid than hotel and restaurant janitors. If the different groups of employers are included in the coverage of a single master agreement (as in the coal industry or in the West Coast pulp and paper industry), the pressure for uniformity is likely to be strong.

The policy of union-management coöperation is often represented as an indication of concern for labor demand, but Ware states that when "confronted by new challenges (the welfare offensive, etc.) the labor unions turned to trade union-employer coöperation in order to encourage employers to deal with them."[24] Different unions have reacted in very different ways to nonunion competition and to shifts in consumer demand, depending on what seems to be the most workable expedient for maintaining the union as a going concern. The problem of technological change, although somewhat removed from wages, offers a close parallel. Slichter has shown that the union may adopt a policy of obstruction, a policy of competition, or a policy of control. The policies adopted by particular unions do not represent different degrees of enlightenment but different ranges of choice and cannot be understood until we recognize the primary importance of organizational survival as the central aim of the leadership.

## VII

As already noted, these chapters are not presented as a new "theory of wages." A complete theory of wages would have to deal with real wages as well as money wages, unorganized workers as well as organized workers, employer policy as well as union policy, and economic as well as political influences. The present study deals entirely with money wages because union bargaining decisions are made in these terms. For this reason the important problem of productivity in its relationship with real earnings has not been considered. The study is focused upon the organized sector of the economy; the majority of workers, however, are compensated in accordance with the results of what is euphemistically called "individual bargaining." I have not attempted to measure the influence of union wages upon nonunion rates, or vice versa. Even within the organized sector, wages are determined, not only by union decisions,

[24] Norman J. Ware, "Trade Unions: United States and Canada," *Encyclopaedia of Social Sciences* (New York, 1937), XV: 13.

but also by employer decisions and occasionally by arbitral awards. The last two are dealt with only incidentally and will be investigated more fully in later research. It seemed appropriate to examine union wage policy at the outset, because unions have generally taken the initiative in the adjustment of wages during recent years. Political relationships and pressures are emphasized in the following chapters; the economic environment of union wage policy is not dealt with systematically, for reasons which have already been noted.

Finally, it is not claimed that the judgments have any timeless validity. It is somewhat dubious whether any single theory can be devised to explain equally well the crude protest movements of Lancashire cotton spinners during the 1820's, the policies of the Iron Molders in the United States during the 1890's, and the decisions of the British National Miners' Union in a socialized industry during the 1940's. The present study is concerned with the behavior of American unions in recent years. This behavior has been conditioned by various circumstances which are not timeless by any means, including the trend of economic activity, the stage of development of the labor movement, the tone of union-management relations, and the division in the House of Labor.

A new stage of development in the labor movement began about 1933 under the National Industrial Recovery Act. Trade union membership stood at less than 3,000,000 in 1933, but by now has risen to approximately 15,000,000. Most of the intervening years have been attended by rising employment and national income and by at least moderate business prosperity. We have had no opportunity to observe the wage policy of a well-organized labor movement during a prolonged or serious depression, and we may hope that the opportunity will not present itself.

Union behavior has also been affected by the status of labor organizations in the United States. They are better established than ever before (and less subject to nonunion competition); there is still no agreement, however, on their proper role in the economy, and, in consequence, survival problems are still of crucial significance in the thinking of union leadership. This, of course, is also subject to change.

From 1941 through 1945, labor disputes were adjudicated by the National Defense Mediation Board and by the National War Labor Board; from 1942 through 1946, wage agreements were more or less rigidly controlled by the National War Labor Board and by the National Wage Stabilization Board. So soon after the war, it is difficult to winnow out the lasting consequences of the wartime experience, which are very considerable, from the purely temporary effects. It is quite possible that the line between the temporary and the permanent has been drawn too far to one side or the other.

VIII

It may be helpful to outline briefly the scope of the next five chapters. Chapter ii, "The Trade Union as a Wage-Fixing Institution," argues that the central objective of the union must be defined as institutional survival and growth. To accomplish this purpose a group of political pressures must be reconciled in the bargaining process. These pressures are experienced by union leaders in their relationships with the rank and file, the employers, other organizational levels of the union, other unions, and the government. The relationship with other organizational levels of the union may or may not be controlling, depending upon the degree of centralization. The relationship between the leaders and the rank and file is a complicated one, as each exerts a reciprocal influence on the other; but in general it is the leaders who make the specific decisions, regardless of the formal procedures employed. This conclusion should not be taken as signifying uncritical acceptance of Michels' "iron law of oligarchy" as characteristic of the union in all its phases. Many aspects of union life are truly democratic, but wage bargaining is poorly adapted to rank-and-file control. It is similar to the foreign policy of a nation, which is never a matter for popular determination.

In chapter iii, "The Dynamics of Wage Determination Under Collective Bargaining," this "model" of the trade union is applied to various questions which are not explained satisfactorily by current wage theory—why the size of a wage adjustment is often more crucial than the level of the wage rate itself, why wage rates are not equalized in local labor markets, why unions strike over small differences, and so on. Questions of this kind involve the structure and function of equalizing tendencies in wage determination. It is argued in chapter iii that the traditional market forces are not of compelling significance under collective bargaining. Ideas of equity and justice, supported by rational organization, move in different channels from supply and demand; these new equilibrating forces operate through the consolidation of bargaining structure and the process of equitable comparison. The major types of consolidated bargaining structure and the most important orbits of comparison observable in contemporary industrial relations are described in this chapter. Equalization of wages is most likely to be sought when unions centralize their wage policies, when separate plants are brought under common ownership, when the government intervenes in wage determination, when rival unions compete with one another, when unions negotiate together, and when employers combine into associations.

As the scope of the single decision is enlarged, the economic effect of negotiated wages becomes more significant. In view of this fact, should

union and management negotiators attempt to achieve the optimum results which are supposed to emerge from a competitive pricing apparatus? The most popular concept of "union responsibility" is that union leaders should show more regard for the "employment effect" of their policies. Chapter iv ("What is Responsible Wage Policy?") argues that despite the substantial integration of wage structure which has taken place, even the largest bargains cover only minor segments of the economy; the employment effect of a wage adjustment is unpredictable before the fact and undecipherable after the fact; and normally the wage bargain is not regarded as a wage-employment bargain at the time it is made. Negotiators do have a responsibility of another kind, the maintenance of law and order in industrial life; and the importance of this responsibility is insufficiently appreciated. Chapter iv concludes with a discussion of the circumstances under which collective bargaining representatives might be held properly accountable for the economic effects of their decisions.

Chapter v is entitled "Union-Management Relations and the Wage Bargain." This chapter does not attempt to weigh the influence of economic factors, but confines itself to the more political aspects of this relationship. Wages can be used to manipulate the loyalty of the workers and secure the approval of the general public and often are used in this fashion during a power contest between management and the union. On the other hand, wage bargaining can also become a form of mutual aid between the parties and is likely to take this form when relations are cordial.

Finally, the question arises whether or not collective bargaining really makes any difference in so far as wages are concerned. This question cannot be answered to any considerable extent by statistical analysis. However, it is investigated to some extent in chapter vi, "The Influence of Unionism upon Earnings." Earnings have tended to be higher, and to increase more rapidly, in the industries in which a larger proportion of workers have been covered by union agreement. There is no compelling reason why the relationship should be regarded as coincidental. That unionism is a source of wage advantage would seem clear from commonsense observation, but authoritative economic opinion has held differently for many years.

If the central proposition of chapter vi can be verified only imperfectly, many other propositions in this volume cannot be verified at all by statistical methods. Examples cannot demonstrate a proposition, but merely illustrate it. The fact is that among all the open questions in the study of social behavior, the great majority cannot be answered in any manner, and only a few can be penetrated by statistical analysis. The

author stands with Mannheim when he says, "There are, however, no methods which are more accurate in themselves. Mathematics are no more to be revered than a knowledge of hidden motives; concrete description is no nearer to reality than constructive inference. Their value is determined by the nature of the province they have to explore. . . . It would be a tremendous step forward if social scientists realized that not only the collection and description of facts but the theoretical formulation of new problems must keep pace with the changing social process."[25]

[25] Karl Mannheim, *Man and Society in an Age of Reconstruction* (London, 1940), p. 30.

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# II. THE TRADE UNION AS A WAGE-FIXING INSTITUTION

In 1928 an eminent English economist complained that "... all existing wage theories appear to ignore a phenomenon which has completely changed the whole condition of the labour market ..., namely the rise to power of trade unionism, with all its consequences."[1] Eighteen years later, an eminent American economist remarked that "little is known about the determinants of union wage policies."[2]

Analysis of institutional policy must begin with an understanding of the institution itself. Sympathetic authors often conceive of the union as a primitive, undifferentiated protest group governed by town-meeting democracy: the union becomes synonymous with its members. Hostile critics tend to portray it as a dictatorship governed by an official bureaucracy: the union here becomes synonymous with its leaders. We have already noted that economic theorists are prone to regard it as a monopolistic seller of labor governed by a maximization principle; the union thus becomes analogous to a business firm marketing a commodity.

None of these images is sufficiently accurate to provide a suitable basis for an analysis of trade union policy. To be sure, any theoretical model must be abstracted from "the richness and complexity of behavior."[3] However, abstraction becomes falsification when it so oversimplifies human behavior as to leave it unrecognizable and unexplained.

The nature of the union as a representative political agency should be no mystery. Even if nothing had been written on the subject since the Webbs's classic description of nineteenth-century British unions,[4] much would be known. Bakke's penetrating monograph, *Mutual Survival*,[5] is the latest addition to an already substantial body of literature. The difficulty is that, like dwellers in a metropolitan area, political analysis and economic analysis have long occupied adjoining apartments but have never become well acquainted with one another.

Mr. Dunlop almost takes the plunge. He points out that the union is a decision-making unit, and that its choices do not necessarily represent the sum of the preferences of individual members.[6] He recognizes a group of "non-income objectives" of trade union wage policy—promot-

[1] J. W. F. Rowe, *Wages in Practice and Theory* (London, 1928), p. 194.

[2] Sumner H. Slichter, "Wage-Price Policy and Employment," *American Economic Review*, 36 (May, 1946): 305.

[3] John T. Dunlop, *Wage Determination Under Trade Unions* (New York, 1944), p. 5.

[4] Sidney Webb and Beatrice Webb, *Industrial Democracy* (London, 1920).

[5] E. Wight Bakke, *Mutual Survival, The Goal of Unions and Management* (New Haven, 1946).

[6] "The institutionalized form of collective action may introduce new preferences ...," Dunlop, *Wage Determination Under Trade Unions*, p. 32.

ing membership, encouraging an equitable division of work opportunities, controlling the rate of technological innovation, and attaining desired working conditions. Apparently, however, these are considered as incidental aberrations which need not be integrated into the theoretical model. The model of the union is essentially a business enterprise selling labor services to the employer and arriving at wage decisions in the light of its "wage-membership function" and the employer's "wage-employment function."[7]

Dunlop argues that for theoretical purposes a union must be assumed to maximize something. This is doubtless true, in the sense that speculation about the union's behavior must be oriented to some central objective. However, he concludes that the central objective of the union must have a dollar dimension: the total wage bill, or the total wage bill of those employed (which would seem to be identical with the first), or the total wage bill minus the union's out-of-work benefits, or some similar quantitative object of maximization. Among the various possibilities, Dunlop selects total wage bill as the most appropriate for a model of union behavior.[8]

This formulation of the central aim has one remarkable implication. If, as many authors argue, it is true that the demand for labor in a single segment of the economy is often elastic, then we would expect to see unions insisting on wage cuts, even to the point of striking![9]

But a more fundamental objection can be raised against the adequacy of any postulated central objective with a dollar dimension. The union is not a business enterprise selling labor. It is a political institution representing the sellers of labor, and there is no necessary reason to assume that it will automatically or mechanically behave in the same fashion as a profit-maximizing business enterprise.

## Distinction Between the Union and Its Members

Every institution has a formal purpose, a stated intention, an official rationale. For the Church, it is the promise of spiritual salvation; for a State, the provision of common defense, the protection of domestic tranquillity, and so on; for an economic system, the production of goods and services. The formal purpose is always a statement of the benefit which the institution provides for its rank and file. Ordinarily, the members of the institution must feel that it satisfies the formal purpose as an incident to its activities; otherwise, it is not likely to survive.

[7] *Ibid.*, pp. 32–44.

[8] "Probably the most generalized assumption respecting actual aims of trade unions would be the maximization of the wage bill." *Ibid.*, p. 119.

[9] This assumes that union leaders are aware of the true elasticity of demand.

When an organization feels the need for justification, it will refer its activities to the formal purpose, and assert that every decision has contributed to this purpose—at least in the long run. The Church will argue that lay functions are necessary guarantees of spiritual salvation. The State will contend that an imperialist venture is necessary for the common defense of its citizens. Perhaps these claims are valid, but the student of ecclesiastical or international policy will hardly care to accept them at face value.

As an institution expands in strength and status, it outgrows its formal purpose. It experiences its own needs, develops its own ambitions, and faces its own problems. These become differentiated from the needs, ambitions, and problems of its rank and file. The trade union is no exception.

It is the beginning of wisdom in the study of industrial relations to understand that the union, as an organization, is not identical with its members, as individuals. This becomes more true as the union becomes better established and more "responsible."

Experienced employer representatives are accustomed to emphasize the distinction between the union and its members. Therefore, they sometimes say that there are three parties to a collective bargaining agreement. So long as this remains true, there will be two aspects of "industrial relations," the worker-management relation and the union-management relation; and there will be two techniques for the handling of industrial relations, personnel administration and collective bargaining. It is no accident that in many firms there is one division for dealing with the employees and another for dealing with the union.

Daugherty states that "collective bargaining is the process whereby representatives of a union meet with an employer or representatives of an employers' association to fix the terms of employment for a certain period of time."[10] The collective agreement is commonly regarded as an instrument defining the "terms and conditions of employment" or the "wages, hours, and working conditions" in the bargaining unit. All this is true, of course, but not complete. Many provisions of the collective agreement are related to wages, hours, vacations, holidays, job security, and so forth. These may be called the "worker-oriented provisions." Other provisions, however, are intended to define the status of the union in the enterprise. These are the "union-oriented provisions." They cover such crucial matters as union security and managerial prerogatives, and such minor matters as the use of bulletin boards. They often provide for the checkoff of union dues, the right to participate in all grievance negotiations, and preferential seniority for union officials. One might argue

[10] Carroll R. Daugherty, *Labor Problems in American Industry* (Boston, 1941), p. 450.

that the basic power settlement is more significant to both parties than a few cents per hour in either direction.[11] Union leaders sometimes speak of having "bought a union shop for a nickel." The parties will often consent to arbitrate the question of wages, but almost never union security.

It is significant that after regaining effective political power in the 1946 elections, management did not attack the wages, hours, and working conditions of the individual employee, but decided to assail the institutional privileges of the union. It is significant also that the Taft-Hartley Act was opposed and resented by the unions so much more strongly than the earlier Portal-to-Portal Act, which had erased several billion dollars of possibly valid wage claims.

Thus, the union has its own needs and problems. Union members often recognize that the organization has a claim on their loyalty even in matters in which their own self-interest is not evident. Their customary allegiance is somewhat similar to national patriotism in that it arises from the memory of the grievances suffered, the pride in the battles won, and the enjoyment of fellowship and solidarity. If the union is effectively organized, the members will adopt its institutional needs as their own when mobilized for combat.

It is for these reasons precisely that the editorial writers of the nation, and some scholars as well, have been so wide of the mark in their pursuit of the increasingly popular pastime of counting the workers' losses in a strike. The arithmetic which demonstrates that it will take two years and eight months to recoup the difference between wages lost in a strike and the wage increase gained is generally exact. But, unfortunately, it is irrelevant. A patriotic citizenry does not count the cost of a war unless the war is lost.[12]

## The Trade Union and the Business Firm

In economic literature, as mentioned above, the union is often conceived of as analogous to the monopolist in a commodity market; the

[11] "Whatever the original sales talk may be, once the union has sufficient members signed up to entitle it to bargain with the management, its foremost objective is to get for itself what has become popularly known as a union security clause in the contract." Russell L. Greenman and Elizabeth B. Greenman, *Getting Along with Unions* (New York, 1947), p. 22.

[12] In bilateral monopoly theory, the "lower limit" of the wage bargain is often described as the wage rate below which workers will prefer to transfer to another industry. This might be the lower limit of an individual bargain between an employer and an unorganized worker, but in a successful union the members simply do not think in these terms. The lowest wage they will accept is the lowest wage which the union will accept. A disastrous strike will demoralize them, much as a military debacle will demoralize the citizens of a nation; but short of such a catastrophe, the putative "lower limit" of bilateral monopoly theory has no place in their calculations. In the event of such a catastrophe, it is no longer a situation of bilateral monopoly.

comparison is made in order to utilize modes of analysis which have proven useful in theorizing about price and output decisions. A far greater amount of study has been given to the determinants of business behavior than to those of union behavior. Moreover, as Bakke points out, unions are expected to conform to the code of business morality, and the typical union leader wishes to behave in a business-like fashion—to be "a fellow you can do business with." For these reasons, it is instructive to consider the points of similarity and dissimilarity between the trade union and the business firm.[13]

The two institutions do have certain features in common. In either case, there is a formal purpose or official rationale, which is represented by textbook authors as the sole determinant of policy. The rationale of the business firm is to maximize the profits of owners; and of the union, to maximize the economic welfare of members.

Even at the formal level, there is an element of vagueness about the official rationale. The profit to be maximized is anticipated profit, not merely in the current production period but over the life of the enterprise. The economic welfare to be maximized is a vague bundle of benefits relating to "wages, hours, and conditions of work," again, over some indeterminate period. There is obviously scope for interpretation, and need for it, in either case.

Therefore, the formal purposes must be interpreted and applied to the problems at hand by leadership groups, that is, by corporate management and union officialdom. They must constantly decide whether this or that course of action is likely to contribute toward the maximization of profit, on the one hand, and the augmentation of group welfare, on the other. It is here that the intangible attributes of leadership are brought into play—judgment, experience, and moral authority.

It is here also that a battery of political pressures comes to focus on the leadership. Each pressure emanates from some interest group which is concerned that the formal purpose of the institution be interpreted in a manner favorable to itself.

Corporate management is surrounded by stockholders, bondholders, bankers, suppliers, customers, employees, the union, and the agencies of government.[14] Each group realizes that management has considerable latitude in making decisions and endeavors to dominate relevant decisions in its own interest. All feasible means of persuasion are used; at

[13] I am greatly indebted to Professor R. A. Gordon and Professor William Fellner for useful suggestions in connection with the form and content of the comparison between the union and the business firm.

[14] See R. A. Gordon, *Business Leadership in the Large Corporation* (Washington, 1945).

the level of argument, it is typically asserted that the favored course of action will contribute, at least in the long run, to the total profit of the enterprise.

Union leadership is surrounded by a similar configuration—the rank and file, the employers, the officials at higher or lower levels of organization, the other unions, and, again, the agencies of government. Each of these will endeavor to prove that the course of action which happens to be in its own interest will also contribute to the welfare of the rank and file.

The task of corporate management and union leadership is to reconcile these pressures. This is the central core of the managerial function. It is at this point that the formal purpose of the organization is supplanted by more vital forces—the instinct of survival and the impulse toward growth. In many instances, of course, the decision which is most clearly related to the formal purpose will also best serve the institutional objectives. If there is a conflict, however, a healthy institution will look to its own necessities. Therefore, pressures are reconciled in the manner which seems most conducive to the survival and growth of the organization.

Suppose, for example, that the managers of a flourishing and currently profitable corporation should become persuaded that the formal objective of "maximizing profits over the life of the enterprise" could best be served by dissolving the corporation immediately, as an alternative to making certain capital commitments which otherwise would be necessary. Suppose that the leaders of a successful union should become convinced that the members could improve their economic welfare by transferring in a body to some other industry or some other union. Would either organization put itself out of business under these circumstances? It is normal rather than exceptional for a conflict between a formal rationale and a vital institutional necessity to be resolved in favor of the latter.

In stating that the institutional objective is foremost in the normal state of organizational health, one assumes that the leaders have been able and willing to achieve more or less complete identification with the institution—that the corporate manager is wholeheartedly a "company man" and that the union official is wholeheartedly a "union man." When this is not true, the situation becomes more complicated, and a third type of motivation is introduced. In the failure of voluntary identification and in the absence of social controls requiring compulsory identification, the leaders are governed by their own survival needs and their own ambitions, which are at variance with those of the organization. The wrecking of organizations in pursuit of personal advantage is not unknown either in the corporation world or the union world.

Thus, in comparing the motivating impulses of the business firm with those of union, we have encountered three kinds of objectives: (1) the formal purpose or rationale, representing the benefit accruing to the rank and file (stockholders and members); (2) the institutional objective, survival and growth of the organization; and (3) the personal ambitions of the leaders. Ultimately the human animal is selfish, and in the absence of identification personal ambitions will come first; but in the normal case, the leader advances himself by advancing his organization. The formal purpose must be accomplished, to a greater or lesser extent, if the organization is to stay alive; but when in conflict with the institutional objective, it is forced to give way.

## Dissimilarities

So far, the comparison holds together fairly well. However, there are significant points of difference. An understanding of these points should help in appraising the value of the analogy and in illuminating the relationship between the union official and his rank and file.

The formal purpose of the union is vaguer than that of the business firm. Profit can be measured in one dimension.[15] "Economic welfare" is a congeries of discrete phenomena—wages, with a dollar dimension; hours of work, with a time dimension; and physical working conditions, economic security, protection against managerial abuse, and various rights of self-determination, with no dimension at all. Therefore, the union leader has considerably more discretion in interpreting the formal purpose. If he is able to convince the rank and file that his own interpretation is correct, there is no one else with the moral authority to contradict him successfully; but a corporate manager would find it difficult to convince his stockholders that a $2.00 dividend was really $3.00. The inherent difficulty of measuring "economic welfare" is obvious whenever one union official attempts to persuade another that he has negotiated the better contract.

Corporate managers must operate under the surveillance of cost accountants and financial officers, who have the function of steering leadership activities toward the accomplishment of the formal purpose of the enterprise. Corresponding agencies in a rudimentary form are sometimes found in union organization, but they are probably less of a "drag" upon the leadership (and offer less help in the formulation of policy), because the formal purpose of the union is less capable of measurement. In many unions, constitutional provision is made for the elec-

[15] The author is aware that profit-and-loss accounting can be manipulated within fairly wide limits. Nevertheless, profit seems much more susceptible of measurement than "economic welfare."

tion of trustees, whose formal function is to serve as watchdogs of the rank-and-file interest, but whose chief activity, in practice, is to guard the petty-cash account against misappropriation.

The business firm sells goods or services, but the union does not sell labor. It participates in the establishment of the price of labor, but the sale is made between the worker and the employer. The union is not mechanically or automatically concerned with the "quantity of labor sold," that is, in the number of workers employed in the branch of the economy over which it asserts jurisdiction. It is vitally concerned with the size of union membership, but this is not the same as the number of workers employed, except where the industry is "100 per cent organized" and the union has no desire to expand its jurisdiction. This would be the apex of institutional maturity, a position in which the only way to increase membership is by increasing employment. But in the present stage of development of the labor movement, the "employment effect" will frequently differ from the "membership effect" and may even move in the opposite direction. An upward wage adjustment may bring in new members, even though the employer is reducing personnel. A downward wage adjustment may bring about a wave of resignations even though the employer should add to his personnel. Inasmuch as the "membership effect" is more closely related to the growth and survival of the organization than is the "employment effect," it will necessarily take precedence when the two are in conflict. The union as a wage-fixing agency is clearly not the same as the conjectural monopolist of bilateral monopoly theory.

The relationship between the union and its members is very different from the relationship between the corporation and its stockholders. Union members are not satisfied with a stabilized rate of return. The corporate stockholder is seldom called upon to ratify operating decisions. Stockholders are widely dispersed and exceedingly inarticulate.[16]

Further, the stockholder's dividend from a single company is usually a minor share of his total income, whereas the employee's wage is the predominant source of income. When dissatisfied stockholders sell their equity, there is no diminution in the amount of capital under control of the enterprise; but when dissatisfied employees resign from the union or transfer to another industry, the size and strength of the union are correspondingly lessened. Moreover, the corporation has alternative means of raising capital. Stockholders and bondholders constitute a rather homogeneous electorate, differentiated only on the basis of propensity for assuming risk; but union membership is often heterogeneous in the extreme.

[16] See Bakke, *op. cit.*, p. 13; and Benjamin M. Selekman, "Wanted: Mature Labor Leaders," *Harvard Business Review*, 24 (Summer, 1946): 407.

Lastly, there is an essential difference between the survival problems of the union and those of the business enterprise. The basic threat to the survival of the enterprise is that capital will not be replaced if the operations are unprofitable. An intermediate danger is the possibility of proxy fights and declining security prices. The most immediate peril is the loss of customers.

It might be argued that the survival problems of the union, although political rather than economic, are equal and parallel: dissolution of the union corresponds to the nonreplacement of capital; disaffection of members corresponds to disaffection of stockholders; and loss of jobs corresponds to loss of customers. The analogy is valid in a formal sense; but as it appears to the union leader, the peril is more complicated. He would distinguish at least four types of survival problems.

*a*) The first is the characteristic apathy of the American worker, who, up to the present at least, has not been a firm unionist by nature. As Perlman and Taft state, "The overshadowing problem of the American labor movement has always been the problem of staying organized. No other labor movement has ever had to contend with the fragility so characteristic of American labor organizations."[17] Corporation stockholders are also notoriously apathetic, but their apathy is a blessing to those who lead them, rather than a curse.

*b*) The union must survive in the face of the actual or potential hostility of the employer. To be sure, some of the most powerful weapons have been removed from the arsenal of the antiunion employer, such as the yellow-dog contract and the right of discriminatory discharge; and a large number of employers are tolerant of, or sympathetic toward, the participation of the union in the control of employment conditions. Nevertheless, there is still ample room for antiunion strategy within the law; and even when the employer is not seriously concerned with breaking the union, he may well be desirous of weakening its hold on rank-and-file employees. In many industries, there is a running controversy over the proper status of the union. To be sure, it is possible for sellers in a commodity market to put buyers out of business, but ordinarily they do not have the same interest in doing so as powerful buyers of labor have had in putting unions out of business. The ordinary business contract does not require the same sacrifice of prerogatives as does the collective bargaining contract and is not resisted in the same way.

*c*) The union must endeavor to survive despite the threatened encroachment of rival unions upon its jurisdiction. The problem is not limited to the traditional jurisdictional dispute over the "right to the

[17] Selig Perlman and Philip Taft, *History of Labor in the United States, 1896–1932* (New York, 1935), p. 7.

job" as a property right attaching to particular crafts. It results also from differences in union structure (particularly the conflicting claims of craft and industrial unions over the right to organize groups of skilled workers); from dual unionism (such as competing maritime, longshore, automobile, electrical, and street railway unions in the AFL and in the CIO); and from the expansionism which is characteristic of vigorous and successful organizations of any kind and which is by no means limited to the well-known jurisdictional claims of District 50, United Mine Workers of America. It may be pointed out in rebuttal that the business firm may be threatened by the encroachment of rival enterprises. This is true, of course, but the difference is that the encroachment generally takes the form of gradual infiltration into the market, rather than a mass political overturn engineered by a *coup de main.*

*d*) The union faces the threat of repressive labor legislation. Anti-union proposals are always in the wind, but occasionally they gather into a cloud, as they did in 1947. It can hardly be doubted that union strategy in the early months of 1947 was influenced, above all other considerations, by the desire to avoid repressive legislation. Here again, the objection will be raised that the corporation also faces the threat of repressive legislation and will take this into account in formulating its price policy. Surely there is a large difference in degree, however. The corporation has never had to face such a sustained hostility on the part of a substantial proportion of voters and legislators as the union faces. Business enterprise is the dominant institution of economic life, whereas the union is not yet fully recognized as legitimate.

The elected union official has his own survival problem as well—re-election and advancement. This is particularly true at the local level of organization. Dependent on the continued support of the rank and file below him, he is in a position fundamentally different from that of the corporation official, who must cultivate and maintain the approval of executives above him. An official hierachy which is built up from the bottom by popular election is not the same as one which is built down from the top by executive appointment. Officials in either type of organization are required to exercise political strategy in order to safeguard their status, but the second type permits a greater degree of personal security than the first. Keeping one's fences mended with a few superior officers is vastly less complicated than holding the allegiance of a large and heterogeneous electorate, which is often receptive to the blandishments of rival leaders and would-be leaders. In consequence, it is more difficult for the local union official to achieve complete identification with the institution. Merely because the union survives, it does not follow that he will survive. And if he does not survive, there is often

no alternative but to return to the shop—an unpleasant alternative indeed, despite the avowals of willingness which are frequently heard.

It is true that, with respect to the tenure of local union officials, there are considerable variations between the old and the new union, between the dictatorial and the democratic union, and between the homogeneous and the heterogeneous union. It is also true that there is a striking difference between lower and upper strata of organization. The tenure of a local union official may hang by a thread, but when he becomes an international representative, he has arrived (unless the international union is badly factionalized). International union executives tend to have unlimited tenure, except in the case of a major debacle. They enjoy a degree of security which is probably not less than that of company officials.

Employers and economists generally consider international officers to be more reasonable and responsible than local officers. This is variously attributed to their maturity, greater experience, and better knowledge of the industry. Actually, the most important reason is that they are better insulated from rank-and-file pressure. Democracy in the union, like competition in the product market, is universally the object of reverence, but is not especially enjoyable to those who must reckon with it.

## Heterogeneity of Membership

It has been shown in the preceding sections that the formal purpose of the trade union must be interpreted and applied by the leaders in such a manner as to ensure its survival and growth and to fulfill their own professional ambitions. This requires that attention be paid to a complex group of political relationships, some inside the organization and some extending to the employers, to other unions, and to the government. Inside the union, the major political problems are those created by the heterogeneity of membership, by the need for division of labor and balance of power between the local and the international, and by the machinery for rank-and-file participation in the making of decisions.

A trade union is never a homogeneous group. The ordinary "craft" union includes a number of skilled occupations as well as apprentice and helper categories, and the occupational composition of an industrial union, is, of course, even more heterogeneous. Most unions are represented in a number of industries; craft union organization follows an occupation, a process, or a material, wherever found.[18] The "industrial"

[18] "It is a mistake to presume that all enterprises which deal with a trade union are close competitors. A trade union's structure may be organized along lines of a process or a material, and there may be virtually no competition among the firms in the different product markets. The machinists deal with auto repair firms, railway shops and contract shops, the photo-engravers have both newspapers and job printing and the hosiery workers deal with both full-fashioned and seamless enterprises." Dunlop, *Wage Determination Under Trade Unions*, p. 70.

union is more often multi-industrial; for example, the United Steelworkers of America have organized a multitude of distinct industries, blanketed informally by the omnibus designation of "miscellaneous steel," the only common denominator of which is the fact that all are engaged in the fabrication of a common raw material. The wage income of the union membership may account for widely different proportions of total cost in their respective industries. Even within a single industry, there are the employees of profitable and unprofitable firms, and the employees residing in high-wage and low-wage areas. Moreover, there are young and old workers, fast and slow workers, male and female workers, married and single workers, employed and unemployed workers.

Nonhomogeneity of membership often gives rise to conflicts of interest; it is one of the most delicate political tasks of the union leadership to reconcile these conflicts in formulating its wage program. The ultimate resolution depends upon (1) the effective political pressure generated by the various interest groups and (2) the political skill of the leadership.

Justice is guaranteed to no man. If the interest group is not aware of the conflict, if it has no articulate spokesman, and if it has no bargaining power inside the organization, it cannot generate any effective political pressure. Many union wage scales show discrimination against female members, either by providing for "men's rates" and "women's rates" or else by assigning abnormally low rates to the occupations in which females predominate. Trade union wage policy in a depression may be dominated by the employed members, particularly when the unemployed cease paying dues and drift away from active participation in the union. According to Shister, the unemployed members of the Hosiery Workers and the "substitute" or nonsteady workers in the typographical unions were in favor of wage cuts in 1937, but were overruled by those with regular employment.[19]

But God helps him who helps himself. Across-the-board wage increases gained by the United Automobile Workers between 1937 and 1942 had the result of flattening the rate structure of the industry. The differential between the wage rates of sweepers and toolmakers was reduced from about 120 per cent to about 40 per cent. In 1944, a number of articulate spokesmen began to agitate the skilled workers. The Mechanics' Educational Society of America (an independent union centered in Toledo) became active in Detroit and aroused considerable interest among tool and die workers. There was some possibility that carpenters, electricians,

[19] Joseph Shister, "The Theory of Union Wage Rigidity," *Quarterly Journal of Economics*, 57 (August, 1943): 523.

and other maintenance men would transfer to various AFL unions. The result was a 5-cent increase for all apprenticeable occupations in the automobile industry. (Convincing the National War Labor Board that it might legitimately order the increase under stabilization rules was a spectacular political achievement in itself.)

Political ineptitude on the part of the leadership may lead to disastrous results. The unity of the organization disintegrates. Off at one side instead of at the center, the officials are no longer in a position to stem the tide of subversive influences. The disaffected element may overturn the leadership; it may desert to a rival organization; it may become disgruntled about unionism in general; and it may even "scab" on union members.

An important aspect of the leadership function is reasonably to ensure that every interest group which can exercise effective political pressure is represented in the bargaining process. In a multicraft union, the important crafts will be represented; in a multi-industrial union, the different branches of trade; and in regional or national negotiations, the various geographical units of the organization.[20]

If it is not feasible to engineer a single settlement it may be necessary to differentiate the bargaining structure so that the different interest groups can bargain separately under specialized leadership. Despite its emphasis on industrial unionism, the organization of Amalgamated Clothing Workers has a differentiated local structure in certain areas; the cutters' locals in New York and Boston, which were organized prior to the Amalgamated, have remained virtually independent of the Joint Boards.[21] The Building Service Union has ten locals in San Francisco, including a department store local, an apartment and office building local, and a theater local. Similarly, the Teamsters' Union has a draymen's local, a milk-drivers' local, a warehouse local, and others.

But there are no administrative devices which will entirely eliminate the need for careful management of the wage bargain so as to hold the organization together. The union must decide not only what demands will be pressed upon the employer, but also what form the benefits should take. Suppose, for example, that the employer is willing to grant a 10 per cent wage increase, but is relatively indifferent as to the distribution of the gain. All occupational rates might be advanced 10 per cent—one type of "across-the-board" increase. Assuming that the present weighted average rate is $1.20 per hour, all occupational rates might be advanced 12 cents—another type of across-the-board increase. The com-

[20] Shister, "The Locus of Union Control in Collective Bargaining," *Quarterly Journal of Economics*, 60 (August, 1946): 530–531.

[21] Harry A. Millis, ed., *How Collective Bargaining Works* (New York: Twentieth Century Fund, 1942), p. 398.

mon labor rate might be increased 18 cents, and higher rates by progressively smaller amounts, in order to "eliminate excessive differentials." The higher rates might be increased by larger percentages, in order to "restore historical relationships." The rates in low-wage plants in outlying areas might be raised to the level of the rates in the high-wage plants in metropolitan areas so as to provide "equal pay for equal work." Some kind of distribution among various occupations might be effected for the purpose of "ironing out inequities" in the rate structure. A combination of two or more of these possibilities might be devised, such as 8 per cent across the board and 2 per cent distributed here and there to eliminate inequities.[22] Each of the forms in which the wage increase might be taken involves a different distribution of the total gain. The union's problem in apportioning the gain is similar to the problem of the Eightieth Congress in apportioning the income-tax reduction.

## Distribution of Authority Between the Local and the International

Observers of the wage-bargaining process invariably note that there are great differences between one union and another in the locus of decision-making power, ranging all the way from unrestricted local autonomy to rigid centralization.

The level of organization at which a decision is made is primarily affected, of course, by the scope of the decision. A master bargain covering the entire membership of the union will be made at the top level. Subordinate units will participate in the process, by being represented on a consultative policy committee or even on the negotiating committees; but in the end the decision is made for the organization as a whole. Similarly, a regional bargain will be made at the regional level, or higher.

The more interesting question is the extent to which the international union participates in a decision covering a single local union, company, or plant. There are several devices available to the international union. It may require that locally negotiated contracts be approved by the regional or national office. It may furnish negotiators, attorneys, and research personnel.[23] It may establish standards from which the local union is not permitted to deviate. It may require that the local secure the permission of the parent body before striking.

Variations in the extent of international union control over local decisions can be illustrated by three unions in the San Francisco Bay area—the Building Service Workers, the Teamsters, and the Steelworkers.

[22] Job evaluation can be regarded as a means of resolving the claims of workers upon the total wage bill, and is more than merely a neutral or technical process.

[23] Shister, "The Locus of Union Control . . . ," pp. 514–520.

At one extreme is the Building Service Workers, a union which is almost completely decentralized. There is no intervention by the parent organization in collective bargaining, and nothing which might be called a national wage policy. Most of the locals have accumulated sizable strike funds and are not dependent on the international, even in a strike.

At the other extreme is the Steelworkers, a union governed by the "wage policy" of the international union. This takes the form of a uniform across-the-board increase in cents per hour (although the Steelworkers, like the Auto Workers, is formally on record in favor of nationwide equalization). The pattern is set by annual negotiations between the top officers of the union and the United States Steel Corporation. Control over local negotiations is assured by the requirement that local contracts have the approval of the international union and by the participation of international representatives.

The Teamsters' Union negotiates locally, ordinarily without the participation of the International Brotherhood. Local contracts must be approved by the Brotherhood, but in practice this is only a *pro forma* requirement. The real control inheres in the constitutional provision that a local union cannot strike without permission of the Brotherhood. The national and regional offices are anxious to build up their reputation for responsible business unionism, and to use the strike weapon only as a last resort.[24] They will insist on the protection of institutional security,[25] but will equally insist that a wage agreement be attained in a peaceful manner. Local leaders must take account of several possibilities: if they apply for permission to strike, the Brotherhood may refuse; if they go on strike without permission, the Brotherhood may order them back; and if they refuse to terminate the strike, the Brotherhood may "move in and take over."

There are several factors which influence the degree of control exercised by the international union over the local wage bargain. Unions organized in local-market industries can, and do, permit more local autonomy than those organized in national-market industries. Unions which have grown from the top down, such as the Steelworkers, are more centralized than those which have grown from the bottom up, such as the Clothing Workers. Personal characteristics and historical accidents

[24] "Members and unions must be on the alert. They must not lose sight of the fact that we must get down to earth and endeavor wherever we can to reach understandings with our employers without having recourse to a stoppage of work.... We should not use a strike except as a last resort." Editorial by Daniel J. Tobin in *The International Teamster*, 64 (December, 1946): 17.

[25] "In many instances the states may outlaw the closed shop, but even without the closed or union shop, men don't have to work with undesirable individuals or with non-union men." *Ibid.*

undoubtedly play a role. In general, AFL unions are subject to less centralized control than are the unions of the CIO.

Despite these differences, the trend is clearly in the direction of greater centralization. Chamberlain states, "As control of union affairs has been passing from local to national offices, the degree of discretion which local unions and joint boards exercise in preparing bargaining proposals has become more and more limited.... It is true that local discretion is increasingly being limited by national standards, confining the authority of local negotiators to those spheres in which no such standards have been imposed."[26] And according to Shister, "The intervention of the national or intermediate office has been a development of the historical growth of each union, and has been generated... by structural forces making themselves felt with ever-growing intensity over time."[27]

There has been considerable discussion of the virtues and vices of intervention by higher officers in local bargaining. It is generally approved by employers and economists, although there is an element of ambivalence in the thinking of both.

Employers believe that international representatives are more farsighted, better acquainted with industry problems, and farther removed from rank-and-file pressures; yet, on specific occasions, they often object to the intrusion of outsiders who have no personal interest in the enterprise, and to the introduction of "extraneous" demands which are based upon international union policy. Actually, the international union may either play up or play down the demands of the local union. In a particular case, the employer's attitude will depend upon whether, in his view, the international officers act as a moderating or as an aggravating influence.

Shister concludes that the intervention of the national office has "a decidedly beneficial effect" on the local wage bargain; since the national officers understand the problems of the industry, because of "longer and more intimate contact with the management group," the wage bargain "is bound to have less detrimental effects on costs and, therefore, on employment opportunities."[28] In other words, the wage rate is bound to be lower. But in the same paragraph he adds that "national representatives are often able to obtain greater concessions for the local than the latter could by itself."

[26] Neil W. Chamberlain, *Collective Bargaining Procedures* (Washington, 1946), pp. 13 and 53.

[27] Shister, "The Locus of Union Control...," p. 514.

[28] *Ibid.*, p. 525. Many economists seem to believe that a "farsighted" union leader is one who foregoes a wage increase during a period of prosperity, in order to prevent inflation, and accepts a wage decrease during a period of depression, in order to reduce the cost of production.

Whether good or bad, the drift is unmistakable. Moreover, it is only part of a more general tendency toward centralization and consolidation in the wage-bargaining process. Multiemployer, multiunion and multi-area agreements are evidence of formal integration of bargaining structure. As the orbit of comparison widens, unions and employers become increasingly dependent on patterns of adjustment; shadows from the outside are thrown across the bargaining table, and the isolated or "atomistic" wage determination becomes more and more of a rarity. In this way, as in so many other ways, developments in union policy are only a reflection of corresponding changes in almost every sphere of economic activity.

## The Role of the Rank and File

Prevalent opinion on the desirability of rank-and-file participation in the wage bargain is curiously divided. Devotion to the ideal of union democracy is quite genuine; it cannot be written off as mere lip service. The bargaining process is commonly described as a means of attaining an industrial democracy wherein the individual wage earner can define the terms under which he supplies his labor. On the other hand, it is widely recognized that a considerable measure of discretion in the hands of the leadership is an indispensable condition for a sound and business-like settlement. Chamberlain, for example, advocates that negotiators be chosen by the union officers, rather than by the membership, and be given "full power of settlement" without the necessity of ratification.[29] The underlying issue is whether trade union wage policy should represent the wishes of the rank and file as expressed by the rank and file, or the interests of the rank and file as interpreted by the leadership.

In addition, there is a preliminary question of fact. To what extent *is* trade union wage policy (as represented in the contract proposal, the approval or disapproval of the employer's offer, the decision to strike, and so forth) determined by the membership? Here again, an atmosphere of unreality surrounds the standard treatment of the question. The difficulty is that the answers are based almost entirely on formal constitutional provisions and parliamentary procedures. This kind of analysis is seldom reliable; in the U.S.S.R., the "most democratic constitution in the world" is not incompatible with great centralization of political power.

Formal procedures for rank-and-file participation have been described by Peterson, Chamberlain, Shister, Kovner, and others.[30] The member-

[29] Chamberlain, *op. cit.*, pp. 33 and 47.

[30] Florence Peterson, *American Labor Unions* (New York, 1945), p. 199; Chamberlain, *op. cit.*, chaps. i, ii, and vii; Shister, "The Locus of Union Control . . .," pp. 529–532; Joseph Kovner, "Union Conventions," *Labor and Nation*, 1 (June–July, 1946): pp. 31–33.

ship may formulate the demand; in the case of a local wage bargain, it ordinarily does. It may designate the bargaining committee. It may listen to periodic reports on the progress of negotiations and express its opinion as to proper strategy. It may vote on whether the union should strike, and whether a strike should be terminated. It may be called upon to accept or reject the employer's offer, and to ratify a tentative agreement, either in meeting or through a referendum. It may select its delegates to the union's annual or biennial convention, in which the general policies of the organization and the conduct of its leaders are submitted to review. There are few institutions in the economic or social life of the nation with so many channels of communication between the rank and file and the leadership

It does not follow, however, that trade union wage policy is actually made up of rank-and-file decisions, in any real sense. And in point of fact, the rank and file are extremely dependent on the leadership for guidance on what is equitable, what is possible, and what is acceptable. The most important business of meetings and conventions is to permit the officers to communicate with the members. The essential function of the strike vote and of the referendum is to demonstrate the solidarity of the union in support of its leaders. The wage policy of a union, like the foreign policy of a nation, is a matter poorly suited to the methods of primitive democracy.

This is not to argue that the membership is only a passive tool. It does have a temper, apathetic or militant; it does have a propensity or disinclination to strike; it is highly susceptible to the appeals of rival leaders and of would-be leaders. The relationship with the rank and file remains the most important in the reckoning of the union officials.

The rank and file always want more. There are two circumstances under which the pressure is likely to be imperative. One is a strain upon established standards of living brought about by an inflation in the price level or by a reduction in take-home pay. When these occur simultaneously, as they did in 1945–46, the pressure is particularly great. The other is an invidious comparison with the wages, or wage increases, of other groups of workers. This comparison originates more often over the clothesline than over the lunch box. These are the sources of labor unionism at the grass roots, because they jeopardize the worker's way of life and damage his self-respect. When the refrigerator is repossessed by the dealer, and when the neighbor's wife begins to put on airs, the worker feels a deep and abiding sense of injustice. Other considerations, such as the percentage of profit earned by the employer and the increase in output per man hour, are infinitely more remote, but they are seized upon as supporting arguments once the original feeling of injustice is created.

The union must deliver; that is clear. But *how much?* The individual member is not in a position to decide how much the union must deliver in order to hold his fealty. Within wide limits, this must be decided for him.

How much is equitable? In the profusion of occupations and industries in economic life, in the variety of methods of payment and nonwage benefits, and in the multiplicity of equitable criteria, the "square deal" becomes a complicated and technical matter. The individual member may know how much he would like to have, and his wife may know how much he really deserves, but both are aware that this is not a world of perfect justice. What he ought to receive as a condition of provisional satisfaction is another question altogether. The individual member is not equipped to answer the question with moral certainty. He needs the technical knowledge of a trusted leader.

How much is obtainable? Here the individual is even more at sea. He cannot say what the employer can afford to pay. More important, he is not versed in the diplomatic and military strategy which is the key to the problem. The member wants all that can be obtained, but the guidance of experienced leadership is absolutely indispensable on these points. To expect a rank-and-file determination of bargaining strategy is about as plausible as to expect the Government of the United States to conduct its foreign policy through a monthly plebiscite of registered voters.

How much is acceptable? In the end, the result is frequently disappointing to the rank and file, because the original demand is almost always subject to shrinkage. What seemed equitable and obtainable at the outset of negotiations is not in the cards when the chips are down. At some point or other, it is wise to conclude negotiations (or terminate hostilities) and sign a treaty for another year. This is another strategic decision which the rank and file are not equipped to make.

Thus, trade union wage policy is inevitably a leadership function. The reason is not that the leadership has wrested dictatorial power from the rank and file, but that it alone is in possession of the necessary knowledge, experience, and skill to perform the function adequately.

This analysis applies to the normal condition of organizational health, where the rank and file have trust in their leaders and are willing to follow them. There are occasions, to be sure, in which the rank and file appear to revolt. They insist on striking against the advice of the officials, or they stay at work in the face of an order to strike. They reject a tentative agreement which is vigorously supported by the officials. This is not so much a sign of vigorous democracy as an indication of internal demoralization. The membership believes it has been sold down the river;

it has lost faith in the leadership. Moreover, a rank-and-file revolt during a period of mobilization or during a state of hostilities is almost positive evidence that rival leaders are at work—a dissident faction with its own candidates for union office, or else organizers and sympathizers for a rival union. The truly spontaneous rank-and-file revolt is a myth, like the spontaneous strike and the pitchfork rebellion.

In addition to gauging the intensity of rank-and-file pressure, the union leader must take into consideration two other factors—the degree of inclination to strike and the degree of danger from rival leadership.

The inclination to go on strike is the net result of many positive and negative influences, including the mores of the workers' community, the financial resources of the rank and file, the probable duration of the strike, the condition of the weather, and the length of time since the last strike. It is ordinarily not feasible to ask a group of workers to undergo a prolonged strike more than once every four or five years, just as it is not feasible to conduct a major war more than once every generation.[31] In conducting wage negotiations, the union official must take into account the current propensity to strike. For example, the propensity to strike was very great in 1946, and very slight in 1947. This is a partial explanation for the infrequency of strikes and the small size of wage increases in manufacturing industries during 1947.

Rival leadership may threaten from inside or outside the organization. Some leaders, such as the late Sidney Hillman in recent years, enjoy the virtually undivided loyalty of the membership and command a faithful and disciplined political machine. Others, such as Walter Reuther, must contend with a bitter factionalism; since the opposition will seize upon any opportunity to deprecate their effectiveness, they must take care that a wage settlement is not vulnerable to partisan attack. Some unions, such as the Teamsters in most localities, occupy a secure territory; they may be annoyed by border skirmishes, but the main centers of the organization are well fortified against assault. Others, such as the three unions in the meat packing industry, are constantly required to beat back each other's forces of invasion. Any wage settlement is subjected to scorn in the periodicals and pamphlets of the opposing unions; the advantages of the settlement are minimized; the leaders are excoriated as pie-cards, Commies, or company stooges; the membership is commiserated for having been sold down the river. In arriving at a settlement, it is obviously important to ensure that these accusations will not be persuasive.

[31] The coal miners must be noted as an exception. Many of the commercial mines would shut down during the spring or summer in any event, because of the seasonality of demand for coal. In addition, the frequency of prolonged strikes in the coal industry can be explained by the social isolation of the miners, their exceptionally bitter sense of injustice, and the rigors of underground work.

There has already been occasion to observe that the provisions of trade union constitutions and bylaws are ordinarily as democratic as any advocate of popular government could desire. But an apparatus, no matter how carefully designed, cannot guarantee the objective it seeks. It is not proof against the need for technical knowledge and tactical skill, a need which constantly enlarges the scope and authority of leadership and limits the role of the rank and file. It is interesting to observe how the procedures for rank-and-file participation in the wage bargain have increasingly become tools for the use of leadership. Originally intended to implement the final authority of the rank and file, they have gradually undergone a subtle metamorphosis, until they have become a means of conditioning the membership, communicating indirectly with the employer, and guarding the flank against rival leadership.

The rank and file are assembled to formulate a wage demand. Knowing what seems obtainable, sensing the temper of the membership, and bearing in mind the strategic possibilities of the situation (from the standpoint of the union's institutional objectives), the officials must decide whether to "play it up" or "play it down." They can emphasize the employer's exorbitant profits, or his high costs of production and difficult marketing problems. They can point to the rapid advance in the cost of living, or they can argue that the price level shows definite signs of receding. In calling attention to the wages, and wage increases, of other groups of workers, they have a wide field of selection. They can praise the employer's coöperative attitude, or condemn his lack of good faith. In other words, they can elect to play either the role of militant fighters or that of cautious advisers. They must take care not to overrun the limits of discretion; but within these limits they have a wide range of choice.

Negotiations proceed unsatisfactorily, and the rank and file are asked to take a strike vote. This is a ritual affirmation of solidarity, a symbolic gesture to impress the employer. To vote "no" would be equivalent to a complete nullification of the union's bargaining power, an act of total disarmament during a crisis in foreign relations. An affirmative strike vote does not necessarily mean that the membership is desirous of striking; as a matter of fact, in the great majority of cases, an affirmative vote is not succeeded by a strike. The strike vote is merely a vote of confidence in the leadership, taken at a time when it can hardly be denied.

It is for this reason that the strike-vote procedure of the wartime Smith-Connally Act proved so ineffective. The procedure was based on the hope of driving a wedge between the rank and file and the leadership. Many thousands of strike votes have been conducted by the National Labor Relations Board; although statistics are not available, the author

ventures to guess that more than 95 per cent have been affirmative. The only effect of the provision was to instill the habit of securing an affirmative vote at the outset of negotiations, a solemn ceremony which occasioned no end of merriment among union and employer representatives.[32]

The membership is asked whether it wishes to approve or reject the employer's offer, which the union officials may have tentatively accepted, subject to ratification. On this occasion, much depends upon the manner in which the offer or tentative agreement is presented. The rank and file wish to know whether it is the best obtainable. Somehow, the officials must communicate an answer. They may point out the flaws in the offer, in which case it will surely be rejected. They may present it without recommendation, in which case it has no more than a 10 per cent chance of acceptance. Only when they give it vigorous support is it likely to be ratified. If it matches the expectations of the rank and file, it will be described as "the best contract in the industry." If it falls short of their expectations, it will be characterized as "a down payment on our just demands." In either case, vigorous support will result in ratification—that is, unless the officials have grossly misjudged the temper of the membership or the union is factionalized.

Rank-and-file approval is useful to the officials because it affords some measure of protection against rival leadership. The members have participated in the bargaining process; any attack upon the settlement is a reflection on themselves as well as on their leaders.[33]

From time to time, prudence may also require the vigorous prosecution of lost causes. A group of workers may feel strongly about some fancied grievance, or a grass-roots wage demand, which from any impartial view must be judged unfounded or unwarranted. Notwithstand-

[32] A variant of this procedure has been incorporated into the Taft-Hartley Act. In "national emergency" cases, when the dispute is still unsettled at the end of the cooling-off period, the National Labor Relations Board "shall take a secret ballot of the employees of each employer involved in the dispute on the question of whether they wish to accept the final offer of settlement made by their employer as stated by him" (Labor Management Relations Act of 1947, Section 209 [*b*]). It will be noted that this provision calls for a strike vote at the conclusion rather than at the outset of negotiations. However, there is every probability that the rank and file would continue to take their cue from the union officials. In the first place, the rank and file cannot be sure that the employer's "latest offer" is actually the best offer which he is prepared to make. In the second place, they do not know whether a strike is likely to be short or long; obviously this makes a great deal of difference. In the third place, they may need guidance on the problem whether the employer's offer "as stated by him" really means what it seems to say.

[33] "It is interesting to note that union leaders at the local level . . . often would rather *not* have full power to make a settlement. Their reasoning is that if a poor bargain is made with the union's consent, the membership cannot blame the leaders as they would if the leaders negotiated 'on their own.' " Shister, "The Locus of Union Control . . . ," p. 537.

ing the virtual certainty of defeat, the issue may be militantly pressed in collective bargaining. Employers frequently understand that union officials are required to support improbable demands, and develop a spirit of tolerance toward the practice if it is not carried too far. If it is politically impossible for the officials to accept a refusal, the issue may be carried to arbitration, again without expectation of success. All these procedures are part of the equipment of successful trade union leaders. The improbable demand has important functions; it permits a periodic display of militance and devotion to rank-and-file interest; it is useful as a symbol of the employer's intransigence and the arbitrator's prejudice. The moral which emerges is useful and pointed. If the employer is callous and the arbitrator prejudiced, the only recourse a worker has is to enlist the aid of a union strong enough to enforce his just demands.

## Summary

The trade union is a political institution which participates in the establishment of wage rates. To conceive of the union as a seller of labor attempting to maximize some measurable object (such as the wage bill) is a highly misleading formulation. Although comparable with a business firm in some respects, it is so dissimilar in other respects that the analogy is of questionable value.

The formal rationale of the union is to augment the economic welfare of its members; but a more vital institutional objective—survival and growth of the organization—will take precedence whenever it comes into conflict with the formal purpose.

Trade union wage policy is a function of the leadership. It is expressed in the various operating decisions which officials are required to make in the course of wage bargaining. In making these decisions, the officials must harmonize various pressures which are focused upon them in the bargaining process. These pressures emanate from a complex of political relationships surrounding the officials; relationships with the rank and file, with the employers, with other organizational levels of the union, with the rest of the labor movement, and with the government. In the normal state of organizational health, the officials identify their own personal aims with the institutional objectives of the union. Therefore, they attempt to reconcile the pressures in such a manner as to contribute most to the survival and growth of the organization.

The relationship between the leadership and the rank and file of the union has been explored in some detail in this chapter. Trade union membership is ordinarily quite heterogeneous; differences in occupation, age, sex, seniority, employment status, product, process, and place of employment give rise to conflicts of interest within the organization. It

is one of the most delicate political tasks of union leadership to reconcile these conflicts in the course of administering its wage program; political ineptitude will disintegrate the coalition.

Under trade union constitutions and bylaws, there are elaborate formal procedures for rank-and-file control of wage decisions. However, the rank and file are extremely dependent upon the officials for guidance on what is equitable, obtainable, and acceptable, as well as for the indispensable tactical wisdom which only they possess. In consequence, the procedures originally designed to guarantee control *by* the rank and file have become devices for control *of* the rank and file. With respect to its wage policy, a union is no more a primitive democracy than it is a monopolistic seller of labor.

A theory of trade union wage policy must address itself to the essential character of the union as a decision-making institution and achieve a more intimate perspective than is ordinarily provided by formal economic analysis. At the level of normative judgment, there is no point in exhorting unions to behave in a manner incompatible with their survival and growth; if we want unions to follow a certain course of action, we must make it consistent with their institutional objectives.[34] We must make a choice, or at least strike a balance, between the ideal that the union be operated as a pure democracy and the desire that its leaders conform with the canons of business morality. And we must give up, once and for all, the notion that unions can be made more responsible by making them less secure.

[34] Many economists believe that higher real wages should be achieved through lower prices rather than through higher money wages. But lower prices do not represent any achievement on the part of the union; moreover, no individual union can have any substantial effect on the price level. If an increase in real wages brought about by a fall in the price level is to serve as an achievement for the union, it must be channeled somehow through the bargaining procedure in which the union participates. This would obviously require a large-scale consolidation of bargaining structure.

# III. THE DYNAMICS OF WAGE DETERMINATION UNDER COLLECTIVE BARGAINING

WE HAVE ARGUED for a new approach to the study of union policy. But a new approach, even if accurate, may or may not be useful.

The problem of truth belongs to the philosopher. Although the principle of conservation of energy is fundamentally inaccurate, it still affords a reasonably approximate answer to many problems. By the same token, the test of a hypothesis in social science is not so much whether it is true or false as whether it explains more or less adequately the phenomena to which it is applied.

The fault to be found with the formulations of wage theory lies with the narrow range of phenomena which are explained and with the cavalier treatment of data which cannot be absorbed and accommodated. By now the slag pile of "imperfections" in the labor market is larger and probably richer than the vein from which it came. The conventional economic model of the trade union leaves too many questions unanswered and unanswerable, two many decisions unpredictable, too much presumed irrationality. And as this image is projected into public policy, that which is presumed to be irrational may likewise be presumed to be irresponsible. It would be better to agree at the outset that the world is larger than the buyers and sellers that people it and that the objectives of its inhabitants are more complex than commercial advantage. The animal kingdom is large enough to include both the hawk and the beaver. Though we might wish it otherwise, the fact is that the beaver does not fly nor does the hawk build dams; and defects though they be in hawk and beaver, they are not likely to be quickly remedied.

When, therefore, a union behaves as though it had other ends in view than the maximization of the wage bill, when strikes are resorted to which by any monetary measure will not be worth their cost, when some differentials in wages are borne without protest and others occasion bitter attack, when emphasis seems to bear heavily upon the amount of the increase and less upon the amount of the wage, when the standardization of rates or of increases is pursued at the expense of a larger total wage bill, it would be imperceptive and mistaken to lay these problems to irrationality, shortsightedness, or lack of education. They have their meaning and their logic. The examination of that logic is the principal object of this chapter.

It will save misunderstanding to reiterate that a new "theory of wages" has not been attempted in this study. We are concerned only with the

money wages of organized workers, and only with the effect of union policies during recent years. A complete theory would deal also with real wages, with unorganized workers, and with employer policies, and would base its findings on evidence accumulated over a longer period of time. Nor is it asserted that supply and demand have nothing to do with the determination of wages, but only that they have less to do than is commonly supposed. Other forces are emphasized here because they are undervalued elsewhere, because they have not yet been sufficiently integrated into our thinking about wages, and because they are particularly influential in union policy.

## Some Unanswered Questions

It will be worth examining in brief certain of the major questions to which current wage theory provides no answer or a poor one. These are no minor matters. They lie close to the heart of wage determination, and upon their satisfactory explanation depends our choice between resting with the hypotheses of current wage theory or seeking new and more efficient tools.

1. Why, in the bargaining process, is the size of the wage adjustment often more crucial than the amount of the wage which results? We have become accustomed to think of the wage bargain as a determination of the price of labor in the same sense that a sales bargain is a determination of the price of wheat. Nevertheless, the bargaining process is almost always directed toward an upward or downward change in a preëxisting wage rate, and the greatest interest often centers on the magnitude of the change. The trade union leader must achieve a 15 per cent increase for his group because most of the other locals affiliated with his international union have done so. The employer insists on a 10 per cent wage cut, after other employers have been successful in enforcing it, so as to avoid competitive disadvantage. The fact-finding board suggests that an 18½-cent increase would be a fair settlement in the copper mining industry, in view of the fact that it has become the pattern of adjustment in the "related" iron and steel industry. Thus, equalizing tendencies in collective bargaining are directed toward equalization of adjustments as often as equalization of rates.

2. In economic theory, the market is the locus of the single price, enforced by competition among buyers and among sellers. Under competitive conditions, no buyer will offer more and no seller will accept less.

But wage rates are not equalized in the local labor market. Every competent survey establishes this fact. If it had never been established prior to 1941, the comprehensive area wage studies of the Bureau of Labor

Statistics during the recent war would have provided a final and conclusive demonstration. In order to promulgate schedules of "going rates" for wage stabilization purposes, the National War Labor Board found it necessary (with minor exceptions) to specify ranges or "brackets" for every occupation in every industry group and in every community.

Labor economists have expended much effort and exercised great ingenuity in a valiant endeavor to explain the observed differentials. This endeavor has proceeded along three lines. First, it is pointed out that comparisons are difficult because of variations in job content and methods of payment between one establishment and another. This is true enough, but it is yet to be shown that wage differentials can be explained away by these variations, and we can hardly afford to assume it by an act of faith. Secondly, it is argued that the concept of "wages" ought to be broadened to include vacation provisions, shift premiums and other nonwage benefits, regularity of employment and conditions of work. Here again, it has never been demonstrated that wages, even in this sense, tend to equality in the labor market area; and, as a matter of fact, better-paying firms usually provide better conditions of work and other nonwage advantages. Finally, economists have fallen back upon the discovery and description of multitudinous "imperfections" in the labor market. Workers are tied to their places of residence, employers and employees do not have complete knowledge of market conditions, job shopping and labor piracy are frowned upon, and so forth. But all this amounts merely to a reaffirmation of what has not been proved: that the equalizing tendencies in wage determination are composed of supply and demand operating in the labor market, and that equalization would be attained were it not for the imperfections. It implies that equalization is more likely to occur as the market is more competitive and less organized, but, as we shall see, the reverse is much closer to the fact.

3. One of the seemingly irrational phenomena of industrial relations is the fact that work stoppages frequently occur when the difference between the parties has been reduced to minute proportions. The general public finds it most exasperating to suffer the inconvenience of a stoppage when the parties are only 2 cents apart. Since the union takes the initiative in calling a strike, the public tends to put the blame on the callousness and arrogance of union leaders. Editorial columns are studded with mathematical demonstrations that the workers would have been much better off if they had accepted the employer's final offer and stayed at work. Legislators then propose that workers be required to accept or reject the employer's final offer in secret ballot before a strike can be called.

Strikes sometimes continue after an ostensibly reasonable basis for settlement has developed. In the 1945–46 General Motors strike, for example, the President's fact-finding board proposed a 19½-cent settlement in January; the company offered 17½ cents in February; and the parties finally settled for 18½ cents in March. Why was the extra penny so important to the Union? It will take the workers ten years to make up the loss of one month's work, at the rate of a penny an hour. And why was the penny so important to the company?

4. Another seemingly irrational practice of many unions (if rationality is conceived as the maximization of wage income) is their insistence upon a uniform wage rate throughout their jurisdiction. Every student of economics knows that a monopolist can increase his income by discriminating among buyers. There is little doubt that a union could achieve a higher average wage rate, and a greater total wage income for its members, if it were to extract from each employer the most that he could be made to pay. If this were done, wages would vary according to the importance of labor as an element in total cost, the elasticity of product demand, and the profit position of individual employers. Some organizations, such as the Musicians' Union, do make an elaborate classification of employers on the basis of ability to pay, and establish a different scale for each classification. Others, such as the Carpenters' Union, insist on a craft rate in all branches of employment in the local area.

There are difficulties in the way of price discrimination in the commodity market; buyers are likely to object to the practice, and the Robinson-Patman Act purports to prohibit it. But buyers of labor frequently object to the absence of discrimination; that is to say, they resent the imposition of a standard rate regardless of their wage-paying capacity.

The usual explanation is that unions seek a "standard rate" in order to "take labor out of competition." This follows the Webbs's classic chapter on the higgling of the market, describing the manner in which the pressure of competition in the commodity market becomes focused on the rate of wages.[1] But actually this is no explanation. "Taking labor out of competition" requires the organization of employees throughout the market in order to eliminate nonunion competition, and a policy of downward inflexibility, in order to prevent competitive wage cutting. It does not require uniformity of wages at any time.

5. One may also ask why it is that unions often press for consolidated bargaining structures, as represented by multiunion and multiemployer bargaining. Consolidation of bargaining structure is not necessarily

[1] Sidney Webb and Beatrice Webb, *Industrial Democracy* (London, 1920), Pt. III, chap. ii, pp. 654–703.

attended by uniformity of wage rates, but equalizing tendencies are accentuated as equitable, and rational criteria are applied to larger areas of decision.

Why are multiunion bargaining units organized? In labor economics, "bargaining power" is often employed loosely and uncritically as a blanket explanation for decisions; here we are told that "joint bargaining on the part of craft unions may strengthen the bargaining power of individual crafts."[2] The assumption seems to be that the union's bargaining power varies directly with the size of the unit. Metz states that "generally speaking, the smaller the unit the less its bargaining power."[3] Actually, the opposite proposition is closer to the truth. A union's bargaining power is measured by its ability to win concessions from the employer. Other things being equal, bargaining power is greater as the percentage of total cost represented by workers in the unit and the monetary expense involved in meeting a given demand are smaller and as the demand for the services of the group is less elastic. A craft union representing only a minority of workers may have more bargaining power than a trades council representing all the workers. If the craft is indispensable and the workers are irreplaceable, the union can achieve the effect of a complete walkout by withdrawing its own members. Moreover, it can ordinarily depend upon the other unions to respect its picket lines. Therefore, there must be other reasons for the growth of multiunion bargaining structures.

If maximization of the total wage bill were the dominating objective of union policy, it would be most difficult to account for the frequent conflict between unions and management on the issue of multiemployer or industry-wide bargaining. It is highly probable that total wage payments are less under multiemployer bargaining than would be true if separate bargains were negotiated between the union and each employer. Unless high-cost firms are to be forced out of business, the wage rate must be set below the capacity of low-cost firms.[4] Notwithstanding the lesser wage bill which results, unions commonly strive for multiemployer bargaining, and management, on balance, opposes it.

## Equalizing Tendencies Under Collective Wage Determination

All these questions are addressed to the relationship between one wage rate and another, or between one wage bargain and another. They in-

[2] Florence Peterson, *American Labor Unions* (New York, 1945), p. 192.

[3] Harold W. Metz, *Labor Policy of the Federal Government* (Washington, 1945), p 99.

[4] Wage uniformity is not the inevitable result of multiemployer bargaining; employers may be differentiated and classified on various bases. However, standardization is more likely to occur than under single-employer bargaining.

volve the structure and function of equalizing tendencies in wage determination. Economic theory does provide for equalizing tendencies, expressed in the Law of One Price and working through the interaction of supply and demand in the labor market area. It is not argued that the traditional market forces have no significance in a system of administered wages, but we have seen that they do not have compelling significance.

In collective wage determination the strongest equalizing tendencies emanate from forces of a different nature entirely—the force of organization and the force of ideas. Organizations are established for the very purpose of achieving mastery over market factors. The ideas are concepts of equity and justice which move in an orbit different from that of supply and demand.

The equalizing tendencies are of two kinds—comparison and consolidation. Equitable comparison links together a chain of wage bargains into a political system which displays many of the characteristics of an equilibrium relationship. Consolidation throws together previously separated bargaining units into the scope of a unitary decision. Both have the effect of integrating that portion of the wage structure in which they operate.

What is referred to here as the pressure of equitable comparison has been variously characterized in the literature as patterns of wage adjustment, wage leadership, key wage bargains, imitation, repetition, and diffusion. One author has constructed a cosmology of industrial relations in which master wage adjustments originate in "generating types" of bargaining relationships and spread into "satellite types."[5] Another observer suggests that "we have reached the stage where a limited number of key bargains effectively influence the whole wage structure of the American economy. When these strategic wages have been determined, for all practical purposes wage rates are determinable throughout the system within narrow limits.... The number of key bargains may be placed in the neighborhood of twenty-five to fifty."[6]

However we entitle them, comparisons play a large and often dominant role as a standard of equity in the determination of wages under collective bargaining.

Comparisons are important to the employer, whose greatest anxiety, in the absence of imperative economic pressures, is to avoid "getting out of line." One of the cardinal sins of business conduct is to offer a wage rate, or a wage increase, which proves embarrassing to other employers.

[5] Frederick H. Harbison, "A Plan for Fundamental Research in Labor Relations," *American Economic Review*, Vol. 37 (May, 1947), Supplement, pp. 379–382.

[6] John T. Dunlop, "American Wage Determination: The Trend and Its Significance," a paper read before the Chamber of Commerce Institute on Wage Determination, Washington, D.C., January 11, 1947.

In a period of aggressive union demands, there is a tightening of discipline in the business community; "getting out of line" becomes as criminal as grand larceny.

Comparisons are important to the worker. They establish the dividing line between a square deal and a raw deal. He knows that he cannot earn what he would like to have, but he wants what is coming to him. In a highly competitive society, it is an affront to his dignity and a threat to his prestige when he receives less than another worker with whom he can legitimately be compared. At times he is not sure what makes a legitimate comparison, and needs guidance on the point; this is one source of moral authority enjoyed by the union leader. The intelligent leader realizes what Whitehead, Roethlisberger, and other students of industrial psychology have often pointed out: that the worker's attitude toward the rate of pay is more significant, for many purposes, than the real income it provides, and that attitudes can be manipulated. The wage earner is not unique in his propensity for invidious comparison. The professor who has vegetated happily on $4,500 per year becomes morose when an associate professor is brought in at the same rate. The stenographer who celebrated jubilantly when she received an increase of $10.00 a month is disillusioned upon finding that an office mate received $15.00.

Comparisons are crucially important within the union world, where there is always the closest scrutiny of wage agreements in the process of negotiation as well as of those already negotiated. They measure whether one union has done as well as others. They show whether the negotiating committee has done a sufficiently skillful job of bargaining. They demonstrate to the union member whether he is getting his money's worth for his dues. A favorable comparison ("the best contract in the industry") becomes an argument for reëlection of officers, a basis for solidification and extension of membership, and an occasion for advancement within the official hierarchy. An unfavorable comparison ("the best we could do under the circumstances") makes it likely that the rank and file will become disgruntled, rival leaders will become popular, and rival unions will become active.

Finally, comparisons are important to the labor arbitrator. The "going rate" and the "prevailing pattern of adjustment" are probably the most compelling criteria of wage determination. Anyone familiar with the realities of arbitration realizes to what extent the other standard criteria are subordinated to these and are employed as supporting rationalizations.[7]

[7] See George Soule, *Wage Arbitration* (New York, 1928), pp. 3–5. One arbitrator offers the following explanation of the usefulness of comparisons: "There is no magic formula for wage adjudication. Consequently one of the compelling considerations must be what has happened in free and successful collective bargaining. This indicates

There is an additional reason why going rates and going increases are likely to be followed. The ready-made settlement supplies an answer, a solution, a formula. It is mutually face-saving. The employer can believe that he has not given away too much, and the union leader that he has achieved enough. It is the one settlement which permits both parties to believe they have done a proper job, and the one settlement which has the best chance of being "sold" to the company's board of directors and the union's rank and file. One can understand why wage negotiations are often stalled until an applicable "pattern" develops, and why the employer is then reluctant to grant anything more and the union to accept anything less.

The proposition might be offered that "face" and prestige are bargained more closely than money, especially in a period of general prosperity. After all, the officer of a union, the official of a corporation and the representative of an employers' association are all dealing with other people's money. The fact that this goes on without noticeable damage indicates how loose are the ties which bind the economy together.

The ready-made settlement has other attractions. Negotiation, arbitration, strikes, and lockouts are costly, time-consuming, and unpleasant. They require specialized personnel. They often leave a residue of ill will. If the "pattern" is not too outrageous, it hardly seems worth while to strive for a different settlement on the outside chance of gaining an extra penny or two. Wage leadership in collective bargaining recommends itself for much the same reasons as price leadership in the commodity market.

Finally, the availability of accurate knowledge has made bargaining settlements more interdependent. Union research offices devote much effort to keeping abreast of contract changes and to disseminating this information among the rank and file. The business community has been giving more attention to the enforcement of self-discipline since the end of the war. Personnel offices and commercial reporting services supply the employer with comprehensive data on levels and movements of wages.[8]

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how experienced bargainers have evaluated the wage-influencing factors which have evidenced themselves, and what they consider to be 'just.' Arbitration . . . is a substitute for successful bargaining, and the 'pattern' or 'package,' indicates what might have evolved from successful bargaining had the parties acted like others similarly situated. Attention to the 'pattern' or 'package,' rather than adherence to any rigid formula, also reduces the risks of parties entering wage arbitration; but should also encourage their own free settlement. It tends to afford equality of treatment for persons in comparable situations. It also provides a precise, objective figure rather than an artificially contrived rate." Arbitration award of Clark Kerr, *In the Matter of Utility Workers of America and Pacific Gas and Electric Company*, May 27, 1947.

[8] "With the advent of the trade union and the personnel department in their modern

## Orbits of Coercive Comparison

We have seen why equitable comparison plays a central role in trade union (and employer) wage policy, and why wage rates and wage changes are transplanted from one agreement to another. But the orbit of comparison is not infinite. There is no uniformity of occupational rates in local labor markets, let alone throughout the nation. There is nothing resembling an economy-wide pattern of adjustment. Even in 1945–46, when the 18½-cent adjustment was so popular, the average increase among manufacturing workers was 14½ cents; and among nonmanufacturing workers, 8½ cents.[9] And so we come to a group of central questions. Under what circumstances do comparisons have the most compelling effect? When does a difference become an inequity? What are the mechanisms integrating the wage structure under collective bargaining? In brief, what is the orbit of coercive comparison and the path of political pressure between one bargain and another?

**1. Labor Market Competition.**—It has already been shown that the strongest equalizing tendencies in collective wage determination are removed from any spatial relationships with each other. Wages respond as much to factors which are independent of the labor market as to any influences within the market. The buyer and seller of labor do meet within some fixed geographic area, but the price at which the exchange takes place is often ultimately determined by other agencies hundreds of miles away, without necessary knowledge or concern for each of the particular markets affected by the bargain. Locality, an essential characteristic of the labor market so far as supply and demand are concerned, is of limited relevance for wage determination.[10]

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form, knowledge of wage variation ... becomes much more inclusive and systematic. A wider and more accurate coverage of wage data results, and better records are compiled.... The impression is easily formed that sources for general knowledge of wage changes have multiplied very rapidly in recent years." Dunlop, *Wage Determination Under Trade Unions* (New York, 1944), p. 124.

[9] These averages relate to the 79 per cent of manufacturing workers and to the 41 per cent of nonmanufacturing workers who received an increase of some size between August, 1945, and May, 1946. If *all* workers are considered, the averages fall to 11½ cents and 3½ cents. About 30 per cent of the manufacturing workers received increases of 18 or 18½ cents. This would be equivalent to about 45 per cent of *unionized* manufacturing workers. *Monthly Labor Review*, 63 (September, 1946): 342–346.

[10] Mr. L. H. Fisher has suggested to the author that the term "labor market" is of dubious utility in describing the determination of wages today. As originally conceived, the labor market had spatial properties, but there are no geographical boundaries of the forces affecting the wage policies of unions and employers under collective bargaining. If the term is divorced from geographical content and is employed to represent merely the orbit of wage-determining influences, it becomes tautological. Wages are determined within whatever sphere of influence wages are determined.

**2. Product-Market Competition.**—One might reason that wage changes would move from establishment to establishment within a single industry. Often they do: 97.9 per cent of workers in the basic iron and steel industry and 75.4 per cent of workers in the rubber products industry received 18½-cent increases in 1945–46. Often they do not, however: in the food products industry, 10.5 per cent received 5 cents, 16.8 per cent received 10 cents, and 29.0 per cent received 16 cents, with the remainder of the workers dispersed above, below, and between these levels.[11] Certainly the iron and steel industry is no more competitive than the food industry. Similar variations are apparent when absolute rates, rather than adjustments, are compared. Wage rates have virtually been equalized on a national basis in the coal industry, but the most sizable differentials prevail in the hosiery industry, the soap industry, and many other industries in which products compete in a national market.[12] Among local trade and service activities in San Francisco (and presumably in other communities), wage rates tend to be uniform when the industry is covered by a master agreement and diverse when it is not.[13]

These facts suggest that the product market may have been the locus of equalizing tendencies in some instances, but only through its association with other influences and not in its own right; and that organization, rather than competition, is characteristic of those industries in which equalizing forces are apparent.

It may be that product-market competition will take on more significance in a depression. The trade union is primarily a political instrumentality and is not mechanically or continuously concerned with conditions in the product market. The business firm, on the other hand, is primarily an economic institution and is more clearly oriented toward costs, prices, and profits. Ordinarily the employer goes on the offensive in a depression.

It follows that product-market competition is a more significant mechanism for diffusing wage reductions than wage increases. One may note that Mr. Dunlop, in describing how "wage changes may spread by means of impacts on cost-price relationships," deals for the most part with reductions. "A decrease in wage rates may lead to product price reductions, aimed at securing a larger share of orders. These price changes may in turn force competing enterprises to reduce prices and enforce wage re-

[11] *Monthly Labor Review*, 63 (September, 1946): 344.

[12] United States Bureau of Labor Statistics, *Handbook of Labor Statistics* (1941 ed.; Washington, 1942), Pt. II, pp. 162–179, 345–349, and *passim*.

[13] See Clark Kerr and Lloyd H. Fisher, "Multiple-Employer Bargaining—the San Francisco Experience," in a forthcoming symposium entitled "Insights into Labor Issues," edited by Richard A. Lester and Joseph Shister and published by Macmillan. (Hereafter cited as Kerr and Fisher, MS.)

ductions. . . . A second variant may be initiated through the action of large buyers in the product market forcing price reductions after an initial cut. . . ."[14]

In a period of prosperity, when unions take the initiative, there are no similar compelling economic forces diffusing a wage increase throughout the product market. It is not particularly important to the employers, for the time being, if labor costs move out of line with each other. The product market is a significant "universe" to the union, under these circumstances, only when it is coterminous with the jurisdiction of a single organization, the scope of a unitary decision, or the locus of interunion rivalry.

On balance, it may be concluded that product-market competition is a more influential orbit of comparison than labor-market competition, but nevertheless not of decisive importance. It is of greater moment to the employer than to the union, but in a progressive economy the union is on the offensive during the major part of the time because money wages and real wages have a secular tendency to move upward.

**3. Centralized Bargaining Within the Union.**—We come now to a group of more compelling influences—centralized bargaining within the union, common ownership of establishments, participation by the government, and rival union leadership.

In many unions, particularly old-line AFL unions, wage bargaining is a function of the local units. Here the comparison between one bargain and another is often not especially sharp.

In other unions, particularly the newer CIO unions, bargaining has been taken over by the regional and central offices of the organization. This is characteristic of the Auto Workers, the Steelworkers, the Electrical Workers, and the longshore and maritime unions of the CIO. The international union not only requires that any settlement be submitted to it for ratification, but actively participates in negotiations. Under these circumstances, there is a much greater tendency toward uniform settlements. The local office may be little more than a membership-recruiting, dues-collecting, and grievance-adjusting outpost of the organization. The international union carries on all significant negotiations. Local officers and members look to the international union for fair and equal treatment and feel they should share equally in the benefits deriving from their common strength. The parent body feels a natural compulsion to deal evenhandedly between one unit and another.

[14] Dunlop, *Wage Determination Under Trade Unions*, p. 125. Mr. Dunlop adds that "a third variant of wage changes induced through the price mechanism operates through the cost of living," and that "the third variant would appear to be the most common avenue for the spread of wage increases." (*Ibid.*) This, of course, is a very different kind of cost-price relationship.

Centralized bargaining is accompanied by consolidation of strategy within the union. By moving together under the leadership of the parent body, the different locals can achieve the effect of industry-wide bargaining (or more properly union-wide bargaining) even though the employers continue to negotiate individually. During the war, several CIO unions developed master contract proposals, or "uniform national programs," which every local union was instructed to serve upon its employers. The Mine, Mill, and Smelter Workers had a six-point program, the Steelworkers had a seventeen-point program, and so on.[15] Consolidation of strategy has lessened to some extent since the end of the war, but union-wide or industry-wide settlements have persisted, with minor exceptions, in the basic steel, rubber, meat packing, electrical, coal, railroad, maritime, and automobile industries.

When bargaining is centralized and strategy is consolidated, nonuniform adjustments are possible, but the international union must assume the burden of proving that they are necessary or desirable. It must guard against being accused of discriminating between local unions. In 1946 the meat packing unions, in order to reduce geographical differentials in the industry, negotiated higher increases for "southern" and "river" plants than for "metropolitan" plants. This was justified to the workers in the "metropolitan" plants on the ground that otherwise work would be shifted to low-wage areas. In the same year the Steelworkers had a similar problem. Employers in the steel fabricating industry demanded insistently that they not be governed by the uniform adjustment in the basic steel industry, as they had been in 1946. Desirous of reaching peaceful agreements throughout its jurisdiction, the union decided to grant the demand. It then took the position that the 15-cent settlement was not a "pattern" and should not stand as a bar to larger settlements in the fabricating industries.

**4. Common Ownership of Establishments.**—When two or more establishments are brought under common ownership, "equal pay for equal work" becomes a persuasive slogan. The case is similar to that of the centralized union. The wage policy of a multiplant company is generally made in the central office, or at least is subject to central consideration.

A single decision-making agency of any kind finds it difficult to discriminate, because its employees, customers, or members demand that it deal equitably among them. The multiplant company is no exception.

[15] In 1945 the author was chairman of a tripartite panel which held hearings on a dispute involving the Auto Workers and a parts company. After listening to a long and turgid argument concerning the union's demand for a maternity-leave clause, the panel inquired how many women were employed in the plant. The company's personnel manager consulted his records and reported that two women, one aged forty-nine and the other fifty-three, were currently on the payroll.

To the union, most wage differentials appear to be inequitable and irrational. Inequity and irrationality are less tolerable when they emanate from a single source than when they inhere in a multitude of separate decisions.

Thus, the Auto Workers are more incensed at wage differentials between various plants of General Motors than at those between Ford and General Motors. During the recent war, the union made a number of bitter attacks upon the War Labor Board's area wage stabilization program (which it called the "bracket racket") because the program made it impossible to apply "General Motors rates" to a large number of plants which had lately been acquired by the Corporation. In the union's long-range wage program, company-wide equalization has priority over industry-wide equalization.[16]

Another example is found in the California street railway industry. The Los Angeles Railway System and the Key System in the San Francisco Bay area, as well as a number of other local transit systems, were recently acquired by the National City Lines, a holding company. Transit wage rates in Los Angeles and the Bay area had not been equal prior to this consolidation of ownership. In its 1947 negotiations with the Key System, the Carmen's Union initially demanded a basic wage rate of $1.56 per hour. It was clear, however, that the real objective was $1.35, the Los Angeles rate; and the Carmen's Union soon offered to "compromise" on this figure. The Key System refused to pay the Los Angeles rate, and it was only after a strike of eighteen days (an unusually long stoppage in a public utility dispute) that the union leaders agreed to recommend a settlement of $1.31. Despite this recommendation, the rank and file accepted the settlement only by a vote of 837 to 532.

**5. Participation by the Government.**—When the government participates actively in the determination of wages, the pressure for uniform treatment is almost irresistible. It is a cardinal tenet of democracy that the government must exercise its powers evenhandedly and dispense justice impartially. To discriminate among unions and among employers is virtually impossible from a political standpoint, even if it were desirable. Subtle notions of equity permitting nonuniform treatment might

[16] "The first logical step in the carrying forward of such a program is the establishment of corporation-wide wage agreements in multiple plant corporations, and the equalization of wages within and between plants in such corporations.... The second logical step... is the establishment of wage agreements based on equal pay for equal work in all plants and corporations doing comparable work within a section of our industry.... The final culmination... must result in the establishment of an industry-wide wage agreement based on equal pay for equal work, regardless of the products manufactured or the geographical location of the plant." *A Program for UAW-CIO Members* (Detroit, 1946).

be designed, of course; but it hardly requires demonstration that the government is in no position to enforce them against strong private organizations.

It is only natural that when the government steps into a labor dispute, it brings along its own concepts of right and wrong. The nature of these concepts is apparent from the government's own behavior as an employer. The Walsh-Healey Act provides that contractors doing work for the United States shall pay wages not lower than prevailing rates determined by the Public Contracts Board. The charter of the City of San Francisco requires that workers employed on the municipal street railway shall receive wages equal to the average of the two highest-paying transit systems in California. Since the government's own wage policy, developed in a political context, rests so heavily on the principle of equalization, it is not surprising that it should adhere to that principle with regard to private employment.

Throughout the war period, collective bargaining was dominated by the National War Labor Board. The Board enjoyed thinking that it operated strictly on a "case-by-case basis," with every dispute decided on its own merits, but in practical effect this was only a pleasant fiction. The "merits" of a case rested on the application of rigid and uniform policies which gradually developed during the first two years of experience. This was not the result of choice but of necessity. It would have been extremely difficult to grant more to one union than had been granted to another under similar circumstances. Moreover, the Board was engaged in the mass production of directive orders—twenty thousand before the job was done. As every sophomore knows, mass production demands standardization. There was a standard policy on general wage increases: the Little Steel formula. There was a standard policy on union security: maintenance of membership and checkoff of the union's strike record was not too bad. There was a standard policy on vacations: one week for one year's seniority and two for five. There was a standard policy on promotions: seniority governs when merit and capacity are equal. And so on.

The twenty thousand directive orders introduced much uniformity into collective bargaining contracts throughout the country, especially in manufacturing industries organized by the CIO. Also, they encouraged a widespread habit of thinking in terms of pattern, precedent, and prevailing practice. The effect of the Board on the thinking of labor and management was particularly influential in the case of new local unions and newly unionized firms. Union membership increased by almost 40 per cent during the war, and several thousand additional bargaining units were established. To a considerable extent, the union and em-

ployer representatives in these new units had had no bargaining experience in the prewar period, when the bargaining table was better insulated from external influences and negotiations were more self-contained.

After V-J Day, it was decided to lay the Board to rest; the President's Labor-Management Conference of November, 1945, assembled to devise machinery for the adjudication of postwar disputes, developed into a prolonged ceremony of reverence at the altar of "free collective bargaining." Nevertheless, the government played an integral part in the "first round" of postwar settlements. The "first round" was conducted rather more clumsily than might have been possible and required the use of numerous expedients—presidential policy speeches, "leaks" from the Commerce Department, fact-finding and emergency boards, prolonged strikes, government seizures, threats of legislation, and so forth.

The pattern of uniformity was developed in the application of Executive Order 9697, setting forth the government's wage-price policy for the reconversion period.[17] It was necessary that wage increases be approved by the Stabilization Board before they could serve as the basis for a price adjustment from OPA. In practice, the most important of the numerous criteria in the Executive Order became (*a*) the "general pattern" already established within industries and (*b*) the elimination of "gross inequities" as between "related industries."

Diffusion of "general patterns" was facilitated by a broad definition of industries. Perhaps the most inclusive was the definition of the electrical products industry, which became coextensive with the jurisdiction of the United Electrical Workers.[18]

[17] Section 3 (*a*) of this order read as follows: "The National Wage Stabilization Board or other wage or salary administration agency having jurisdiction with respect to the wages or salaries involved shall approve any wage or salary increase, or part thereof, which it finds is consistent with the general pattern of wage or salary adjustments which has been established in the industry or local labor market area, between August 18, 1945, and the effective date of this order, or where there is no such general pattern, which it finds necessary to eliminate gross inequities as between related industries, plants or job classifications, to correct substandards of living, or to correct disparities between the increase in wage and salary rates in the appropriate unit since January, 1941, and September, 1945." *Labor Arbitration Reports,* III (Washington, 1946): 74. (Hereafter cited as *LAR.*)

[18] This industry was defined as including all establishments producing one or more of the following items: "radios, radio tubes, phonographs; telephone and telegraph equipment and electric signalling apparatus; electrical refrigerators and refrigeration machinery, including compressors, evaporators, condensers, and other related mechanical devices essential to electrical refrigeration; complete electrical air-conditioning units; household electrical appliances, including heating, cooking, cooling, cleaning, and laundry equipment; lighting fixtures: wiring devices and supplies; carbon and artificial graphite products for the electrical industry; electrical measuring instruments; electrical prime movers and other electric power equipment (including motors, generator sets, transformers, switchboards, panel-boards, and other transmission ac-

The identification of "related industries" by government fact-finding boards and by the Stabilization Board itself was even more instructive. The key wage bargain was made between the Steelworkers and the basic steel producers on February 15, 1946. Earlier settlements of 22 cents in the oil industry and 16 cents in the meat packing industry had been made, but after February 15, 18½ cents became the rule. On February 12, the Stabilization Board gave "preapproval" to any wage increases not in excess of 18½ cents per hour in the iron-ore mining industry and in "certain plants engaged in the steel processing or fabricating industry."[19] "Certain plants" was a means of designating the jurisdiction of the United Steelworkers of America among steel fabricators.

On March 2, 1946, the Stabilization Board approved agreements between the United Rubber Workers and the "Big Four," providing for wage increases of 18½ cents per hour, in order to correct "gross inequities in wage increases between related industries."[20]

Later in March the Stabilization Board approved the 18½-cent strike settlement betweeen General Electric and the Electrical Workers. The parties had applied for approval on the ground that the increase "accords with increases recently granted by, and approved for, other industries." The Board rejected "the concept of any single pattern of increases which might be alleged to have developed generally throughout all industry," but added that "the actual facts of the case, as developed in a separate document submitted by the union and by the independent investigation made by the Board, do require the approval. . . ." The Board found a relationship between the electrical industry and the steel and automobile industries, indicated by the similarity of wage movements in the past, the existence of certain common job classifications in all these industries, the "considerable degree of geographical relationship," and the "limited interrelationship in terms of products."[21]

On March 18, 1946, the Board made a finding that a wage inequity existed between the refractory industry and the steel industry and approved wage adjustments to a maximum of 18½ cents.[22] On April 8, it declined to recognize an asserted relationship between dairy workers and automobile workers in Detroit,[23] but on May 24 it approved wage in-

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cessories) for employment in the generation, transmission, or utilization of electric energy; wire and cable for the transmission of electrical energy; automotive electrical equipment; electric lamps; storage and primary batteries (wet and dry); or electrotherapeutic and electro-medical apparatus." National Wage Stabilization Board, Release No. 37, April 11, 1946.

[19] *Monthly Labor Review*, 62 (May, 1946): 837.

[20] *Monthly Labor Review*, 62 (May, 1946): 838.

[21] *LAR*, II: 410–411.

[22] *Monthly Labor Review*, 62 (May, 1946): 839.

[23] *Monthly Labor Review*, 63 (August, 1946): 317.

creases up to 18½ cents per hour for the nonferrous metals industry in eleven western states, on the ground that the industry bore "a close relationship to iron-ore mining, steel, and aluminum industries, in which 18½ cent increases were previously approved."[24]

The National Wage Stabilization Board and the Office of Price Administration did not have primary jurisdiction over the railway industry in the postwar period. Nevertheless, on May 22, 1946, an Emergency Board appointed under the Railway Labor Act recommended an 18½-cent wage increase for seventy thousand employees of the Railway Express Agency, represented by the Railway Clerks, the Machinists, and the Blacksmiths, Drop Forgers, and Helpers.[25] On June 22, a strike against the Hudson and Manhattan Railroad was settled by the same adjustment, as recommended by another emergency board.[26]

The two-day strike of the Locomotive Engineers and the Railway Trainmen throughout the nation's railroad system in 1946 resulted from mismanagement on the part of the government officials involved as much as from arrogance on the part of union leaders. Considerable dissatisfaction had developed among the railroad workers over the deterioration of their relative earning status. Once they were "the aristocrats of labor." By 1945, their annual earnings were surpassed by those in the automobile, shipbuilding, machinery, rubber, and petroleum industries.[27] Leaders of the railway unions had chafed under wage stabilization policies during the war. The CIO had chartered a rival railway union, and District 50 of the United Mine Workers had been raiding the Brotherhoods. Government boards and agencies had already awarded 18½ cents per hour to a large number of labor organizations which had neither the venerable history nor the political problems of the Brotherhoods. Sixteen railway unions had agreed to arbitrate and were bound to accept the decision of the arbitration board. The Locomotive Engineers and the Railway Trainmen, however, had not participated in the arbitration; and when the Emergency Board made an identical recom-

[24] *Monthly Labor Review,* 63 (August, 1946): 318. The nonferrous metals adjustment had been recommended in the report of a presidential fact-finding board, which, after ten pages of logic-chopping over the concept of "relatedness," brought forth a new category of "fundamentally basic industries." Included in this category are steel, iron-ore mining, aluminum, and nonferrous metals. "All are engaged in producing the essential industrial metals—those sinews of our basic economy so vital to reconversion and other national requirements of today. All face similar problems in winning the ore from the earth; all must concentrate and purify the mined substance; all must reduce the chemical compounds found in nature to the useful metallic state; all melt, work, shape and cast these metals into useful forms; and all approach the solution of these problems with similar tools and techniques." *LAR,* III: 81.

[25] *Monthly Labor Review,* 63 (August, 1946): 318.

[26] *Monthly Labor Review,* 63 (August, 1946): 323.

[27] *Survey of Current Business,* 26 (October, 1946): 32.

mendation, they were free to repudiate it. Under the circumstances, it is difficult to understand how the two boards could feel that a wage increase of 16 cents per hour would be satisfactory. The President, attempting to mediate the difficulty, made a "compromise proposal" providing that the wage increases be advanced to 18½ cents on the condition that the seven rule changes also recommended by the Emergency Board be withdrawn. This was too clearly a restatement of the original recommendation to permit acceptance without loss of face, although it probably would have been acceptable if it had been proposed in the first instance.[28] The Locomotive Engineers and the Railway Trainmen finally accepted the proposal, but only after a disheartening debacle which might have been avoided if the two boards had recognized the necessity for an 18½-cent award in view of the prior involvement of the government in a large number of settlements at that level.

The extent of government participation in the "second round" of postwar wage increases was much less than in the "first round." For this reason, there was considerably more diversity in the settlements. The uniform pattern in 1946 was diffused throughout a solid nucleus of our economy: basic steel, steel fabrication, nonferrous metals, electrical manufacturing, automobiles, rubber, farm equipment, aluminum, shipbuilding, coal, and railroads. The 1947 "pattern" consisted of wage increases of 11½ or 12½ cents per hour, plus "fringe benefits" (most commonly, paid holidays) sufficient in value to bring the total to 15 cents. The scope of its application was much more limited, however. It was confined largely to establishments in the basic steel, automobile, farm machinery, and electrical industries; and even here, there were many more exceptions than in 1946. Steel fabricators were released by consent of the union; a large number of minor electrical goods concerns granted smaller or larger increases; and there were some variations in the farm machinery industry.

To be sure, 15-cent settlements were common in the clothing industry and in some other industries; and it is probable that the average increase of all manufacturing workers was closer to 15 cents in 1947 than to 18½ cents in 1946. However, the clothing agreements and others in the neighborhood of 15 cents were only coincidentally connected with the multi-

[28] A further complication was that in 1941 and 1943 the unions had been able to secure better terms than those recommended by emergency boards. See Herbert R. Northrup, "The Railway Labor Act and Railway Labor Disputes in Wartime," *American Economic Review*, 36 (June, 1946): 324–343. When the Administration persuaded the unions to postpone the strike in 1946, it was indicated that a better settlement would be secured. See verbatim transcript of telephone conversations among President Truman, Mr. Steelman, Mr. Whitney, and Mr. Johnston in *United States News*, Vol. 20, June 7, 1946, pp. 71–74.

industry settlement in the heavy industries. A true pattern involves a traceable relationship between one bargain and another, and not merely a coincidental similarity. It might be added that the Lewis-Fairless agreement in July could be characterized as a 15-cent settlement only by the widest stretch of the imagination.

Thus, when the government left the scene in 1947, a powerful influence making for uniformity of adjustments was removed; and the notion of a master wage bargain embodying a national wage policy receded into the background. It should be kept in mind, however, that if the government should again have occasion to participate actively in the determination of wages, it will doubtless serve once more as an instrument for linking together a multitude of separate agreements into a more closely integrated system.

**6. Rival Union Leadership.**—It is strange that although controversy between political parties is valued and competition among businessmen is glorified, rivalry among unions and union leaders is regarded as strictly pathological.

From many points of view, rival union leadership is unmistakably an evil. It leads to jurisdictional disputes. It limits the extent to which unions can discipline their members and underwrite their commitments. It reduces the effectiveness of the labor movement in public affairs.

But there is another side to the coin. Leadership rivalry is the lifeblood of unionism in the United States. After all, the American trade union is pragmatic to the core, neutral in ideology, and weak in political purpose. In the absense of competition for the allegiance of workers, there would be little else to ensure its militance and guarantee its role as an agency of protest. Moreover, rivalry has been the most effective stimulus to organize the unorganized. Let the reader ask himself if the labor movement would be as far along as it is today, in terms of total membership, had there not occurred the split between the AFL and the CIO in the 1930's.

Union leadership rivalries are of three kinds. The first takes place within a single union. There are the ins and the outs, the Young Turks and the Old Reliables, the right wings and the left wings. All the familiar tactics of political mobilization are employed in achieving and holding power. The second is rivalry among the leaders of separate unions, striving for preferment in the upper reaches of the labor movement. The third is jurisdictional rivalry between dual unions claiming the same territory.

Regardless of the form of rivalry, the wage rate and the wage increase are paramount symbols of success. Mr. Taylor states, "The principal non-economic consideration in wage determination in these postwar

years is not so much a struggle between employer and union for the loyalty of workmen . . . , but an intense competition between labor organizations based upon the magnitude of their demands upon the employer and upon the size of immediate wage increases."[20] The more intense is leadership competition, the more certain it is that comparisons will be played upon for all they are worth. Practical politics and personal animosities combine to make this the one situation in which workers are assured of "full knowledge."

Under these circumstances, wage comparisons are doubly coercive. They have an offensive aspect and a defensive aspect. The first serves as a disequilibrating force. In order to improve his position and that of his organization, the union leader is impelled to break the equilibrium when conditions are opportune, so that comparisons can be manipulated to advantage. The second serves as an equalizing force. When a rival group has been able to move out in front, the union leader is compelled to restore the equilibrium at a higher level. "Equilibrium" is used here in the technical sense, as a point of rest representing the balance of opposing forces. It is often a necessary condition for stable industrial relations, and therefore has more than academic significance. The equilibrium itself, however, is highly unstable. The motive to break it is fully as strong as the motive to make it.

## Wage Parity Under Rival Unionism

Coercive comparisons are displayed in their purest form by the making and breaking of political wage equilibria between rival unions. Among the numerous parity systems which might be described, perhaps the most interesting are found in a group of related industries centered on the water front: water transportation, longshoring, and warehousing.

At the present time, there are three unions representing unlicensed personnel in the Pacific Coast merchant marine. Deck department personnel, such as ordinary seamen, able seamen, and boatswains, are enrolled in the Sailors' Union of the Pacific, AFL; engine-room personnel in the Marine Firemen, Oilers, Watertenders, and Wipers, an independent union; and the steward's department personnel in the Marine Cooks and Stewards, CIO. On the East Coast, unlicensed men in all three departments have been organized by the National Maritime Union, CIO. All these unions have a common progenitor in the International Seamen's Union, an organization which attained considerable power during the First World War, disintegrated in the 1920's, and failed to reestablish itself in the 1930's because of internal dissension. The present

[20] George W. Taylor, "Wages and Industrial Progress," address delivered at the University of Pennsylvania, January 10, 1947.

maritime unions went their separate ways when the International Seamen's Union dissolved in 1937. There is still strong rivalry between the National Maritime Union, led by Joseph Curran, and the Sailor's Union of the Pacific, led by Harry Lundberg, a rivalry which is kept alive by competition for the personnel of unorganized crews, particularly in the tanker fleets of the major oil companies.

Longshoremen on the West Coast belong to the International Longshoremen's and Warehousemen's Union, CIO (Harry Bridges, President), and those on the East and Gulf coasts to the International Longshoremen's Association, AFL (Joseph Ryan, President). The ILWU was established after a revolt of West Coast longshoremen against the leadership of Ryan, a revolt which came to a head in the water-front strikes of 1934 and 1936. The intense rivalry between the two organizations is compounded of personal antagonism, ideological differences, and jurisdictional controversy.

There are two rival warehouse unions in the San Francisco Bay area: Local 6 of the ILWU and Local 860 of the Teamsters. The ILWU local is much larger. Dual unionism results from the fact that the celebrated "march inland" on the part of the Longshoremen was countered by a "march to the sea" on the part of the Teamsters, led by Dave Beck of Seattle; the two forces came together and stabilized their front lines in the San Francisco Bay warehouse industry.

In each of these three industries there is a rigid political wage equilibrium which has never been broken permanently in recent years. Any permanent break might easily demoralize the present organizational structure and ignite severe jurisdictional conflict.

The 1946 and 1947 wage movements in the merchant marine are highly instructive. Wage rates on the two coasts had been equalized as early as 1939 and had moved upward together in subsequent years. The monthly base rate for Able Seaman–Class C Vessel (the occupational classification universally employed for purposes of illustration) stood at $72.50 in 1939; it was increased to $82.50 in 1940, $100.00 in 1941, and $145.00 in 1945.

In June, 1946, the National Maritime Union, the Marine Firemen, and the Marine Cooks were granted monthly wage increases of $17.50. The agreement was approved by the National Wage Stabilization Board, and an arbitrator was appointed to dispose of collateral issues. The Sailors' Union of the Pacific had refused to participate in the initial negotiations, and now declined to be a "coat-tail rider"; for reasons of its own, the Pacific American Shipowners Association granted increases of $22.50 and $27.50 to this organization. When the Stabilization Board took the position that the larger amounts were contrary to national wage

policy, the Sailors' Union went on strike until the Board was overruled by the Director of Economic Stabilization.

The National Maritime Union, the Marine Cooks, and the Marine Firemen could not afford to be left in the rear and therefore joined the strike. After the Sailors' Union had received satisfaction, the other unions remained on the picket line, claiming that the new settlement had created inequities by setting "different rates of pay for men doing the same work on the same type of ships." Peace was restored to the industry only when the arbitrator who had been appointed to settle collateral issues promulgated an award granting the additional $5.00 and $10.00 to the striking workers. Thus, parity was reëstablished at a higher level.

In 1947 negotiations were conducted separately on the West and East coasts. In June the Pacific American Shipowners Association signed contracts with the Marine Firemen and with the Marine Cooks providing for a continuation of existing wage scales. A few days later, the American Merchant Marine Institute on the East Coast granted a 5 per cent increase to the National Maritime Union. The Pacific Coast employers were then compelled to reopen the contracts, which had already gone into effect, and eliminate the differential. To do otherwise would have guaranteed a year of troubled industrial relations and might have provoked a strike. Political realities were stronger than contractual formalities.

In the longshore industry, the ILWU has a coast-wide contract effective from Seattle to San Pedro, whereas, on the East Coast, the ILA bargains with local associations. North of Hampton Roads, wage rates are standardized at the New York City level. In October, 1934, the National Longshoremen's Board awarded the New York rate of 95 cents per hour to the West Coast group. Another part of the award, however, provided that overtime would start after 6 hours in any day; this gave the ILWU a relative advantage. Increases of 5 cents per hour achieved by the ILA in 1936 and 1937 brought the two groups into virtual parity. With a rate of 95 cents, an ILWU longshoreman earned $8.55 for an 8-hour day (including overtime), whereas an ILA longshoreman earned $8.40. Thereafter, the two unions moved along in equal steps. ILA settlements were made quickly because of cordial relations between Ryan and the East Coast employers, but the ILWU generally required considerable time to catch up because of chronic union-management hostility in West Coast ports. Thus, 5-cent increases were won by the ILA in December, 1938, and by the ILWU in December, 1940; 10 cents by the ILA in October, 1941, and by the ILWU in February, 1942; and another 5 cents by the ILA in November, 1942, and by the ILWU in October, 1944.

In September, 1945, Ryan agreed to accept a postwar wage increase of 12 cents per hour. Large sections of his rank and file revolted against this settlement, however, and returned to work only after Ryan and the employers consented to refer the wage issue to arbitration. The ILWU, working through the National Maritime Union in New York City, took an active interest in the strike and gave all possible moral support to the dissident group. The arbitrator, William H. Davis, awarded an increase of 20 per cent, or 25 cents per hour.

Negotiations on the West Coast were unsuccessful, and a fact-finding board was appointed. The report of the fact-finding board is interesting for its recognition of the parity concept. "The fact is undisputed that wage changes on the Atlantic Coast and the Pacific Coast have influenced one another.... Moreover, this sensitivity of wage movements between the two coasts was recognized by the employers and the union in this proceeding.... The Davis award has been approved by the Wage Stabilization Board, and its terms have been extended to other Eastern seaports. *This is the inexorable fact which we face.*"[30] (Italics supplied.)

The Water-front Employers Association had argued that its offer of 18 cents was in accordance with the national pattern of 1945–46. The union had requested the East Coast rate of $1.50 per hour. Both positions were rejected by the Board. "In view of the remoteness of steel and like industries to the longshore industry, it cannot well be contended that such a pattern (the steel pattern) should be applied here in contradiction to the authoritative pattern established in this industry.... Furthermore, we think it clear that the union is unwarranted in demanding the East Coast figure of $1.50.... A substantial difference between the coasts may be attributed to more than a historical factor. It has continued to be founded upon certain contractual advantages enjoyed by the Pacific Coast longshoremen...."[31]

The panel decided to calculate a parity wage with finer precision than hitherto had been employed. It took into consideration not only the 6-hour day on the West Coast, but also relative vacation plans, winch driver differentials, penalty rates, and standard size of gangs. The end result was a recommendation of 20 per cent (the Davis award), less 1 cent per hour. "The many variables between the two coasts are such, even with much more data, as to make impossible absolute scientific exactness. But $1.37 is the closest parity we can achieve."[32]

On September 30, 1946, the ILA received a further wage increase of 15 cents per hour. This was extended to the ILWU approximately six weeks later.

Political wage equilibrium in the San Francisco Bay warehouse in-

[30] *LAR*, III: 172–173. [31] *Ibid.*, p. 173. [32] *Ibid.*, p. 180.

dustry illustrates what is known as the "tail-and-dog" situation. Local 860 of the Teamsters is small in comparison with Local 6 of the Longshoremen and therefore is bound by the settlement of the larger group. As far back as 1938, the changes in its wage rates have followed those of Local 6, with approximately one month's lag in every case. On April 1, 1946, Local 6 received a general increase of 31½ cents. In June, Local 860 went into arbitration. In support of its demand for a 15-cent increase, it presented comprehensive statistical evidence on productivity, profits, cost of living, and other standard equitable criteria. It criticized the employers for implying that "we should let the ILWU and the Distributors Association do our negotiating." It argued against being bound by the wage rates of Local 6, which had "sacrificed wage rates for institutional expansion and security." The employers argued that Local 6 might strike if Local 860 should be awarded more than 31½ cents; Local 860 asked, "Is this to be arbitration by intimidation?"[33]

All the union's arguments were canvassed in the arbitration award, but one consideration was clearly dominant: "The adjustments negotiated by Local 860 have been closely correlated with those negotiated by Local 6.... To state the collective bargaining situation in terms of conclusions from the record, Local 860 wanted a competitive advantage over Local 6 by way of either a greater wage or a new working rule, and the (Employers) Council declined to bargain with Local 860 on any other basis except the 31½-cent wage increase...."[34] The award provided for only 31½ cents, and a new contract was signed.

Soon afterward, the ILWU local was granted a special increase of 12½ cents, apparently as the result of a concerted slowdown on the part of warehousemen, who were angered by rapid price inflation. Bowing to the inevitable, the employers under contract with Local 860 voluntarily opened their contract and reëstablished parity.

## The Manipulation of Comparisons

Some of the methods of manipulating equitable comparisons have already been suggested. In a context of rival unionism, it is a source of political advantage to break out of the orbit. The employer may be tempted to accord better treatment to the union he prefers; this is a costly device, however, if the other union is able to restore the equilibrium. Employers do not fully appreciate that "divide and rule" is often an expensive policy.

Aggressive unions and ambitious leaders attempt to become "front

[33] Union's posthearing brief, *In the Matter of Warehousemen's Union Local 860 and San Francisco Employers Council,* November 1, 1946.

[34] Arbitration award of Hubert J. Wycoff, *In the Matter of Warehousemen's Union Local 860 and San Francisco Employers Council,* December 24, 1946.

runners." In 1945–46, the Amalgamated Meat Cutters and Butchers Workmen, AFL, were inclined to settle peacefully with the meat packers for a relatively small increase. The rival United Packinghouse Workers of America, CIO, scoffed at the "submissiveness" of the AFL group and demanded 30 per cent. As Mr. Selekman describes it, "As the negotiations proceeded, this union (the Meat Cutters) exchanged lusty blows with . . . its C.I.O. rival, deriding the latter's strategy and challenging its allegedly inflated promises and claims. But when the younger organization had brought its own wage strategy to the brink of a strike, the A.F.L. union (perhaps unhappily, but none the less unmistakably) declared from the start for a solid front and also called its members out on strike."[35] John L. Lewis insisted on being a "front runner" in 1946, when he negotiated a valuable health and welfare fund in addition to an 18½-cent wage increase, and again in 1947, with a fabulous settlement more than double the "second-round" pattern.

The employer may use one union as a "stalking horse" to establish a pattern for another union. In 1946, the fact-finding board recommended that the General Motors Corporation grant an increase of 19½ cents per hour to the Auto Workers. The Corporation then offered 18½ cents to the Electrical Workers, which was accepted. It was considered a notable moral victory for the Corporation when the Auto Workers were forced to settle for the smaller figure. This incident illustrates how impossible it is to determine whether a strike is won or lost solely by reference to the monetary sums involved.

Complications often arise when an employer deals with two or more unions. In 1947 the Pacific Gas and Electric Company took the position that its settlement with the International Brotherhood of Electrical Workers should serve as a "pattern" for the Utility Workers of America. The chairman of an arbitration board declined to recognize the IBEW settlement as a binding precedent because "one bargaining unit if it tied itself completely to the other would be giving away its right to bargain, and an arbitration board which tied it tightly to the other unit, regardless of changed circumstances, would in effect be depriving it of its rights."[36] The Industry Member's dissenting opinion stated: "In order to have an understanding of the unique wage problems of the Company, the collective bargaining history must be considered. . . . This dual-union rivalry . . . constituted a recurrent threat to stable labor relations and a sound wage policy. . . . I believe that Dr. Kerr has failed completely to measure this important factor of dual-unionism, and its con-

[35] Benjamin M. Selekman, "Wanted: Mature Labor Leaders," *Harvard Business Review*, 24 (Summer, 1946): 412–413.

[36] Opinion of Clark Kerr, *In the Matter of Utility Workers of America and Pacific Gas and Electric Company*, May 27, 1947.

tinuing impact, in connection with the other factors which he cites.... The arbitration award... has deliberately upset the uniformity and equality of wage treatment...."[37]

The principle of equalization can be used for strategic purposes. Unions are interested in creating inequities as well as in eliminating them. Once they have standardized wages within an orbit of comparison, they will focus pressure on an unsuspecting or vulnerable employer and attempt to bring him out of line. This being achieved, they will argue that other employers should offer "equal pay for equal work." To avoid being "whipsawed" in this fashion, employers combine into associations and negotiate master contracts governing the entire group. The unions may attempt to "whipsaw" the employers under a master contract by winning better conditions through the grievance procedure. This is why sophisticated employers' associations, such as those affiliated with the San Francisco Employers Council, insist that contracts be administered as well as negotiated by their own staff. A grievance becomes the property of the association.[38]

## Consolidated Bargaining Structure: The Political Stakes

It was noted above that there are two kinds of equalizing tendencies in collective wage determination—comparison and consolidation. This chapter has been chiefly concerned with the importance of equitable comparison as a connecting link between one wage settlement and another. A word should be added concerning the consolidation of bargaining structure into multiunion and multiemployer bargaining units. Uniform occupational rates are not inevitable, but there is the same pressure for equal treatment which develops under any unitary decision.

What is the rationale of consolidated bargaining structure, from the union's point of view? We have already argued that bargaining power vis-à-vis the employer will not serve as an explanation. One union has more bargaining power than a group of unions, so long as it can bring operations to a halt by withdrawing its own members. A union can achieve higher average wages by "whipsawing" the employers than by dealing with them collectively. Lester and Robie's survey of wages under national and regional bargaining confirms this argument. They conclude that "under national or regional bargaining, wage decisions are likely to be more sensible and farsighted[39]... than is the case where the wage pattern for the industry is established by a wage 'leader' or by local

[37] Opinion of J. Paul St. Sure, *In the Matter of Utility Workers of America and Pacific Gas and Electric Company,* June 13, 1947.

[38] Kerr and Fisher, MS. [39] I.e., lower.

bargaining, with the union playing one firm against the other.... The union's wage demands may be more modest when they apply uniformly and simultaneously to all plants in a multiple-employer unit.... Generally speaking, wage and earning levels do not appear to have risen more rapidly under national and regional bargaining than for manufacturing as a whole."[40]

**1. Multiunion Bargaining.**—The real advantages of multiunion bargaining are administrative and political. Naturally the employer prefers to negotiate only once instead of several times. It is more convenient for the unions also, since they can share the burden of preparing evidence as well as the expenses of negotiation and possibly arbitration. Negotiations can be completed more rapidly; it is not necessary for the employer to delay his reply to those unions who have filed their demands earlier until he has had an opportunity to consider the demands of the other unions.

The strongest advantage is the political protection afforded to the leaders of the individual unions. They cannot ignore the fact that the rank and file will compare their performance with that of the other leaders in the closely related union group. This is such an obvious orbit of comparison that it is only elementary self-defense to avoid being placed in a vulnerable position. Through joint bargaining, they protect themselves against participating in the establishment of inequities. They eliminate the possibility of making what appears to be a satisfactory settlement, and then witnessing another union making a better settlement which renders their own embarrassing or untenable. It is mutual insurance against the displeasure of the membership which recommends multiunion negotiations as a form of bargaining structure, rather than any enhancement of bargaining power against the employer. This would make no sense if, as many authors assume, trade union wage policy is mechanically oriented toward maximation of the wage bill or attainment of the highest possible wage rate. Such an assumption is not accurate, however, and need not deter us from noting the real determinants of wage policy.

**2. Multiemployer Bargaining.**—The chief advantage of multiemployer bargaining to the union lies in the institutional security it provides against the apathy of workers, the hostility of employers, and the inroads of rival organizations. The union cannot be dislodged bit by bit. If it is to be dislodged at all, it must be overturned all at once throughout the consolidated bargaining unit. This is always difficult and often impossible to undertake.

[40] Richard A. Lester and E. A. Robie, *Wages Under National and Regional Collective Bargaining* (Princeton, 1946), p. 93.

How "industry-wide bargaining" serves as a protection against rival unionism has been described by Kerr and Fisher. "The National Labor Relations Board is charged with the responsibility for determining the appropriate unit for bargaining purposes and this determines the universe within which the employees vote to select their agent. . . . A history of bargaining with an employers' association with authority to bind its members . . . is a virtual guarantee that the National Labor Relations Board will designate the multi-plant group as the appropriate unit. This is powerful protection against the incursion of a raiding competitor. When, as in a number of master agreements in the San Francisco area, the bargaining unit consists of in excess of one hundred plants, the task of organization for the rival union is virtually insuperable. It requires simultaneous organizing effort over an area much broader than the ordinary trade union can manage in order to show a majority of the employees of all the plant units voting for new representation."[41]

The multiemployer agreement confers the benefits of "collective bargaining" upon the employers, but it has a price; it also confers a kind of political sovereignty upon the union. "It is not easy to conceive of a master agreement developing without the concession that there are somewhat autonomous spheres within the industrial commonwealth and that one of these spheres belongs to labor and another to management. The master agreement is fundamentally a treaty. . . . In this treaty, as in others, the recognition of sovereignty is implicit."[42]

Employers who sign master agreements, such as those in England and Sweden and in various small-scale American industries, have seen fit to pay the price. Employers who oppose the development, such as those in the great mass-production industries of the United States, demonstrate once again that political stakes are paramount over economic stakes in collective bargaining; that power is worth money and often more than money.

## Summary

Despite the popularity of analogies from physics, economic behavior remains perversely intractable to mechanical analysis. Within the several branches of economic theory this is nowhere better illustrated than in the theory of wages and collective bargaining. The apparatus of equilibrium analysis has been adopted in its entirety Wages are the "price of labor," established in the "labor market." Collective bargaining is "bilateral monopoly"; the union is a monopolistic seller of labor. Wages emerge from the interaction of supply and demand in the labor market. In order to complete the analogy, it is held that competition among buyers and sellers of labor integrates and unifies the wage structure,

[41] Kerr and Fisher, MS. [42] *Ibid.*

whereas imperfect competition among buyers and sellers inhibits the tendency toward equalization of wage rates.

Formally the parallel appears reasonably good. Much could be overlooked if the analysis worked well, and if, as sometimes happens, more or less correct conclusions were reached from false premises. But if current wage doctrine is conceptually unsound, practically it is impossible. The results are poor and the lacunae manifold. Where one price should prevail in the labor market, there are many. Labor market theorists are so burdened with the task of identifying rigidities and imperfections that little time has been left to make a constructive theoretical reformulation. On balance, the labor market concept is a net liability in wage analysis; there is a fatal disjunction between the spatially limited character of supply and demand and the spatially unlimited characteristics of wage determination under collective bargaining.

We are not enlightened on the reasons why unions demand what they do, why employers grant what they do, and why arbitrators award what they do. We are told that the wage structure is a living, breathing organism, but its way of life remains a mystery. Viewed in the large, what is euphemistically called our "national wage structure" is a maze of distinctions and differences. Some are more or less in accordance with commonly accepted notions of equity, such as distinctions between skilled and unskilled workers, or appear to follow economic geography or to correspond with the profit position of employers. These we call differentials. Others exist without apparent reason. These we call inequities.[43] In still other situations with the soundest of economic bases for wage distinctions, none are to be found. Some differences persist indefinitely, others narrow gradually, and still others are eliminated entirely. The "national wage structure" seems to consist of little islands of rationality in a sea of anarchy.

Theoretical reconstruction must begin by the recognition of a few

[43] One of the most engaging aspects of the National War Labor Board's eminently pragmatic program during the early years of World War II was the Board's capacity to distinguish between "historical differentials" and "gross inequities" without sacrificing the notion that it was administering the national wage structure evenhandedly and scientifically. Historical differentials had to be preserved; gross inequities had to be eliminated. In some cases, both themes were played simultaneously. For example, in *Chrysler Corporation,* the Board stated: "It should be pointed out that differences in rates are not necessarily inequalities in rates. On the contrary, the wages paid in American industry are normally characterized by all sorts of differentials created for many different reasons. Under any sound program for stabilizing wages in this time of war it must be presumed that well-established differences in wages are not inequalities.... One must not interpret the above-stated presumption, however, as an indication that established differences in wages can never become inequalities. They may be subject to adjustment if they have become inequalities which must be rectified in the interests of full production of war goods." Case No. 240, October 2, 1942, *War Labor Reports,* III: 451.

.ementary facts. The trade union is a political instrumentality not gov-:ned by the pecuniary calculus conventionally attributed to business nterprise. (Others are better qualified to judge whether this is also true f the business enterprise itself.) The influences determining wages run ı political more often than geographical or industrial orbits. Where single price does emerge, there is established a prima facie case against he operation of market forces.

There are forces in society and in the economy making for uniformity n the wage structure, but they are not merely the forces of supply and lemand. Ideas of equity and justice have long permeated industrial ociety, but the growth of organization has endowed them with com-)elling force. They provide the substance of equitable comparisons, and hey govern the administration of consolidated bargaining structures. These are the strongest equalizing tendencies in wage determination.

Equitable comparisons are highly important to workers, employers, ınions, and arbitrators. They attain additional strength through the ıdministrative and political convenience of a ready-made settlement. They run in limited circuits, however, and not in a single chain through-)ut the whole economy. It is when the several locals of a single inter-national union centralize their wage policies and consolidate their strategies, when separate industrial establishments are brought under common ownership, when the state plays an increasingly active role in setting rates of pay, when rival unions compete with one another for jurisdiction, when related unions negotiate together for mutual protection, and when employers organize into associations to preserve a common front that comparisons become coercive in the determination of wages. Under these circumstances small differences become large, and equal treatment becomes the *sine qua non* of industrial peace. A sixty-day strike over 2 cents an hour may be irrational in the economic lexicon, but viewed as political behavior it may have all the logic of survival.

# IV. WHAT IS RESPONSIBLE WAGE POLICY?

THE EXTENT to which impersonal market forces in wage determination have been replaced by conscious human decision and the trend toward fewer and larger settlements have been shown in previous chapters. Almost as clearly as in other phases of economic life, consolidation of decision-making power can be observed in industrial relations, in the form of multiplant, multiemployer, and multiunion bargaining, union-wide wage programs, and wage leadership on the part of major employers. Separate settlements are linked together by the force of equitable comparison.

It is a commonplace that the large strike is vested with public interest, but the same is true of the large agreement. The more comprehensive is an agreement, the more pronounced is its effect upon production and employment and the greater is its power for good or evil.

The functions of wage and salary rates have often been noted. Dunlop states, "In the first place, they help to determine the amounts and qualities of labor services that are called into the labor market, and into its numerous specialized categories of skill and location.... In the second place, wage and salary rates through their impact on costs have decisively affected the distribution of employment among industries, firms and occupations.... In the third place, the level and structure of wage and salary rates have served the important function of providing the active media whereby the benefits of technological improvements have been diffused throughout the economy."[1]

In a similar vein, Slichter states that "the wages embodied in trade agreements affect the capacity of the enterprise and industry to give employment, and they affect the distribution of employment among different occupations, industries and places."[2]

In view of the fact that considerable economic power rests in the hands of negotiators, the question naturally arises whether they should not be expected to conform with normative standards of economic conduct and use their power in such a manner as to achieve optimum results.

The two cornerstones of economics are the scarcity of resources and the multiplicity of wants. True economy consists of deriving maximum want satisfaction from available resources. This requires that resources be allocated into proper channels and combined in proper proportions.

Economic theory is equipped with a battery of functions expressing

[1] John T. Dunlop, "American Wage Determination: The Trend and its Significance," a paper read before the Chamber of Commerce Institute on Wage Determination, Washington, D.C., January 11, 1947.

[2] Sumner H. Slichter, *Basic Criteria Used in Wage Negotiations* (Chicago: Chicago Assn. of Commerce and Industry, 1947), p. 8.

consumer preferences and input-output relationships and a principle of maximization applying to the consumer, the owner of productive resources, and the entrepreneur. The supply of productive resources is assumed to be given. The interplay of supply and demand then determines the prices of commodities and resources, the allocation of resources among alternative uses, and the distribution of the resulting income.

Attention is often directed to the role of price in controlling economic activity. Under very special circumstances, free pricing leads to optimum results. Scarce resources are truly economized, and satisfaction is truly maximized. The workings of celestial mechanics as described by Kepler are no more symmetrical and harmonious than the pricing system as portrayed in the theory of competitive equilibrium.

Competent scholars are careful to indicate that the optimum results are conditioned by the underlying assumptions of full employment, rational behavior, and competitive markets. They frequently apologize because the "real world" corresponds so poorly with the postulated environment of price and output decisions. On occasion, however, the theory of a competitive economy is pressed into the service of partisan and political debate. On these occasions there is frequently a failure to note that the theory deals with the operation of a stationary, frictionless, competitive economy. Illegitimate applications of competitive theory are not limited by any means to the popular tracts of Hayek and Hazlitt.

Collective wage determination is very different, of course, from competitive wage setting. Nevertheless, the wage bargain still has significant functions and consequences. Results which formerly flowed from the pricing mechanism in the labor market are now brought about by authoritative decisions of employers and trade unions. It would still be desirable if resources could be utilized in such a manner as to yield the greatest total satisfaction.

Thus, it is only natural to hope that union and management officials will conform with normative standards of economic behavior. Economic analysis is frequently utilized in an attempt to supply such standards and define the properties of responsible conduct, but here again is encountered the same classical error of failing to test assumptions against reality.

Although a wage rate has two aspects (cost to the employer and income to the worker), attention is usually centered on the cost aspect; since an individual collective agreement covers only a minor segment of the economy, the income effect is very small. As cost of production, the wage rate is taken into account by the employer in deciding what scale of output and what combination of resources will maximize his profit. If

this formulation is valid, it follows that the wage bargain is really a wage-employment bargain, and should be considered as such.

Normative judgments are centered on the wage-employment relationship and bear most heavily upon the union. There are many concepts of "union responsibility," e.g., the observance of contract commitments, the exercise of discipline over the rank and file, and the encouragement of efficient performance, but the most prevalent concept relates to the "employment effect" of the wage bargain. Polar terminology is frequently employed: A "farsighted," "industry-minded," "mature," and "statesmanlike" labor leader is one who gives a proper measure of consideration to the "employment effect." The most common criticism of labor leaders is their "shortsightedness"; they ignore the long-run elasticity of demand. The highest praise is reserved for those who, like the presidents of the Iron Molders, the Hosiery Workers, and the Photoengravers, have cautioned their members against "pricing themselves out of the market."

At the outer fringe of economics, where special pleading is carried on, pointed contrasts are often made between the beneficent results of free pricing and the malevolent consequences of collective bargaining, on the assumption that free pricing would exist in the absence of labor unions.[3] Specious comparisons of this kind, although respectable twenty years ago, are seldom encountered within the pale today. Contemporary economic theorists content themselves with stern warnings concerning the danger of unemployment. According to Bowman and Bach (following Hicks), wages can be raised above the competitive equilibrium level "only at the cost of some unemployment of previously employed workers, or in periods of expansion, at the cost of a smaller increase in employment than would otherwise occur."[4] Berman expresses the almost universal judgment that "the unions in the building industry, by trying to maintain high wage levels, were probably influential in intensifying the depression in building, and thus bringing about unemployment and decreased incomes for their members."[5] Nourse states that "if wages are forced up beyond the point where the increase can be paid from profits without impairing the solvency of the company or its ability to finance further technological improvements, the wage increase must be reflected in an increase in the price of the product. This, in all but exceptional

[3] See Introduction by Leonard H. Read in Jules Bachman's *Wages and Prices* (Irvington-on-Hudson: Foundation for Economic Education, 1947); and Hastings Lyon, *Dictatorship of the Proletariat in the United States* (New York, 1943).

[4] M. T. Bowman and G. L. Bach, *Economic Analysis and Public Policy* (New York, 1943), p. 471.

[5] Edward Berman in *Economic Problems in a Changing World,* W. L. Thorp, ed. (New York, 1939), p. 315.

cases, must mean a decline in the volume of sales and the amount of employment."[6] These statements might be multiplied ad infinitum.

From emphasizing the dangers involved in collective wage determination it is only a short step to reason that trade union leaders should avoid these dangers and preserve the employment opportunities of the workers they represent. As noted above, this is the most popular concept of union responsibility. Most union leaders are anxious to behave in a business-like fashion and are willing to join in general pronouncements concerning their responsibility for employment. For example, the Labor Committee of the Twentieth Century Fund, which included Mr. Robert J. Watt of the AFL and Mr. Clinton Golden of the CIO, stated that "both management and union must be aware of the danger of 'pricing themselves and their product out of the market.' In this connection, collective bargaining becomes a crucial instrument for sparking and stimulating the capacity use of our materials, our machines, our man power. This function is especially important in view of the fact that the basic decisions of our time are group decisions, and not the solitary decisions of individual sellers and individual buyers.... Price and wage administration today must move toward the same goal as that achieved by the automatic competition of the free (or nearly free) market...."[7]

This makes a fine text. No one could question these worthy sentiments. But how much help are they as a guide to the negotiation of individual agreements? The central argument of this paper is that they are no help at all.

There are two major reasons why it is usually impossible in specific cases to assume responsibility for the employment effect. The first is that the typical wage bargain in the United States covers only a minor segment of the economy. This remains true despite the substantial integration of bargaining structure which has already taken place. Therefore, analysis of the employment effect must be conducted on a particular equilibrium basis. The impact on aggregate consumer spending is not substantial; demand for the commodity must be regarded as given; wages affect labor demand only through the cost-price relationship. This type of analysis is appropriate to the situation, but the difficulty is that when the problem is approached in this fashion, the answer is invariably the same: the best wage (from the standpoint of employment) is the lowest wage. When Hazlitt argues that "the best wages are not the highest wages, but the wages that lead to full employment,"[8] he establishes a

[6] E. G. Nourse, *Price Making in a Democracy* (Washington, 1944), p. 273.

[7] Harry A. Millis, ed., *Trends in Collective Bargaining* (New York: Twentieth Century Fund, 1942), pp. 230–231.

[8] Henry Hazlitt, "Wages and Prices," in *Proceedings of the Academy of Political Science* (May, 1946), p. 27.

valuable criterion for wage movements in the economy at large. But when the criterion is applied, as it is so often, to single wage bargains covering small pieces of the economy, in which considerations of cost are paramount and of income irrelevant, then it yields only one answer and loses all utility as a tool for distinguishing right from wrong. "The situation for labor is comparable to that found in connection with any product. The higher the price, the smaller the demand in a given set of circumstances; the lower the price, the greater will be the demand."[9] No matter how well-intentioned, statements of this kind throw the weight of academic authority on the side of the employer. The unions retaliate by hiring their own economists to demonstrate the necessity of mass purchasing power, and the net result is that economic analysis has virtually no serious influence in the making of the wage bargain.

But the line of reasoning has another weakness which is even more fundamental. It assumes that union leaders are in a position to consider the employment effect of their decisions, if they would. When Mr. Taylor states that "the labor cost consequences of many proposed wage policies and the effect of these policies upon the relative competitive positions of business enterprises have frequently been ignored,"[10] he clearly implies that they need not have been ignored and perhaps that they should not have been. Thus, it is conceived that the employment effect of the wage bargain is the subject of rational calculation in the bargaining process; or at any rate, that it can be. There would be no point in assigning responsibilities unless it were felt that decision-making officials are in a position to carry them out.

If the employment effect of the wage bargain is to be the subject of rational calculation, it has to be predictable. There needs to be a reasonably exact relationship between wage rate and volume of employment before the fact, at the time the bargain is made. But this is possible only if other things remain equal. There must be no other and more powerful influences affecting the volume of employment; or if there are, then their effects must be predictable.

Here, as elsewhere, other things do not remain equal. The wage bargain looks forward, not backward. Even if wage rates are connected with employment at one point of time, over any substantial period of time there are such pronounced changes in productivity, consumer preferences, and the general condition of business that the relationship is fatally beclouded. In other words, production coefficients, substitution functions, and aggregate demand do not remain constant. As a result,

[9] Bachman, *op. cit.*, p. 50.

[10] George W. Taylor, "Wages and Industrial Progress," address delivered at University of Pennsylvania, January 10, 1947.

the real employment effect of the wage bargain is lost in a sea of external forces. The volume of employment associated with a given wage rate is unpredictable before the fact, and the effect of a given rate upon employment is undecipherable after the fact. The employment effect cannot normally be the subject of rational calculation and prediction at the time the bargain is made, and union officials are normally in no position to assume responsibility for it.[11] It is the exceptional case which is so widely celebrated in the literature of labor economics as a model of responsible behavior which all unions could do well to emulate.

## The Fiction of the "Wage-Employment" Bargain

The chain of logic connecting the rate of wages with the demand for labor in the individual firm has four links. The wage rate is related to the labor cost of production; labor cost is an important element of total cost; total cost affects the price of the product; the price determines the amount to be sold and therefore the amount of labor to be hired in producing it. Under the classical assumptions (constant production functions, consumer preferences and aggregate demand, and competitive product pricing), impulses would be transmitted reliably from one end to the other; a given change in wages would have a unique and predictable effect upon employment. In actual fact, however, there is a great deal of free play at each link in the chain.

**a) Wage Rates and Labor Cost.**—In the first place, there is no assurance that a given change in wages will be associated with a corresponding change in labor cost, or with any predictable change whatever. In order to demonstrate this statement, it is necessary to deal with statistics on average hourly earnings; these are not the same as wage rates, of course, but they are used because of the scarcity of wage rate statistics. Table 1 shows indexes of average hourly earnings and unit labor cost in nineteen manufacturing industries, covering the period 1929–40. For most of the industries, movements in the two indexes are extremely divergent, and increasingly so with the passage of time. For example, average hourly earnings in petroleum refining increased by one-half over the eleven-year period, while labor cost fell by one-fourth. The index of average hourly earnings in the rayon industry rose to 147.5, while the index of labor cost dropped to 37.3.

As table 1 is constructed, the divergencies are cumulative. It might be argued on various grounds that only year-to-year charges are important

[11] In formal economic theory, the employment effect is conceptually measurable; abstracting from external influences is legitimate enough for the purpose of a theoretical analysis of wage-price-employment relationships. Naturally economists are more concerned with a systematic account of these relationships than with the limited problem of responsible wage policy.

for the present purpose; if a reasonably consistent short-run association between movements of earnings and labor cost could be established, it might be sufficient. Table 2 shows year-to-year percentage changes in average hourly earnings and labor cost for the nineteen industries included in table 1. It is evident that the association is not at all consistent. Hourly earnings and labor cost have frequently moved in opposite directions. This was true during eight years out of ten in the rayon industry; during six years in the newspaper and periodical industry; during five years in the agricultural implement, lumber and timber, and petroleum refining industries; and during three years in the boot and shoe, chemical, meat packing, and cigarette industries.

An important study of wage rates, labor costs, and hourly earnings in four industries, published as a monograph of the Temporary National Economic Committee in 1940, reached a similar conclusion. "Just as changes in wage rates do not necessarily result in corresponding changes in average hourly earnings, so the relation between wage rates and labor cost is by no means direct. The records of the companies included in this study clearly indicate that it would be erroneous to assume that an increase of, say, 10 per cent in wage rates is necessarily accompanied by an increase of 10 per cent in labor costs, or that a 10 per cent cut in wage rates is always followed by a 10 per cent drop in labor costs. Many factors besides wage rates influence labor cost. The relation between changes in wage rates and labor costs is somewhat closer where workers are paid by the piece than where they are paid by the hour, but even in the former case the trends of wage rates and labor costs are not necessarily parallel."[12]

The basic reason for the lack of correspondence is that unit labor cost depends, not only on hourly earnings, but also on productivity, or output per man hour.[13] Changes in productivity are the result of two causes: (1) changes in technology, organization, and human efficiency; and (2) changes in the intensity of labor utilization. In the long run, changes in technology, organization, and relative factor prices are the most important determinants; but from year to year, fluctuations in the volume of output are often of greatest significance. Thus, Hirsch notes a distinction

[12] Douglass V. Brown *et al., Industrial Wage Rates, Labor Costs and Price Policies,* Monograph No. 5 (Washington: Temporary National Economic Committee, 1940), p. xix. (Hereafter cited as T. N. E. C. Monogr. No. 5.)

[13] "Output per man-hour, together with average hourly earnings, determines ... unit labor cost.... Unit labor cost varies directly with average hourly earnings and inversely with output per man-hour. If output per man-hour is advancing, unit labor cost will decline unless there are increases in average hourly earnings larger than the gains in output per man-hour. Conversely, if average hourly earnings increase, unit labor cost will also rise unless the increase in average hourly earnings is over-balanced by gains in output per man-hour." "Productivity Changes Since 1939," *Monthly Labor Review,* 63 (December, 1946): 914.

TABLE 1

INDEXES OF AVERAGE HOURLY EARNINGS AND UNIT LABOR COSTS IN NINETEEN MANUFACTURING INDUSTRIES, 1929–40 (1929=100)

| Year | Agricultural implements | | Boots and shoes | | Cement | | Chemicals | | Cotton goods | | Flour, etc. | | Furniture | | Glass group | | Iron and steel | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *AHE*[a] | *ULC*[b] | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* |
| 1929 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1930 | 102 | 86 | 96 | 99 | 99 | 95 | 100 | 100 | 100 | 104 | 98 | 93 | 99 | 101 | 104 | 101 | 103 | 109 |
| 1931 | 108 | 128 | 83 | 87 | 101 | 84 | 102 | 90 | 87 | 92 | 93 | 84 | 93 | 97 | 107 | 88 | 93 | 102 |
| 1932 | 102 | n.a. | 75 | 73 | 83 | 71 | 95 | 80 | 74 | 72 | 83 | 77 | 80 | 83 | 98 | 78 | 90 | 94 |
| 1933 | 91 | 235 | 77 | 68 | 90 | 76 | 94 | 78 | 86 | 78 | 85 | 79 | 75 | 81 | 97 | 67 | 87 | 85 |
| 1934 | 104 | n.a. | 92 | 80 | 110 | 91 | 103 | 98 | 117 | 101 | 98 | 91 | 87 | 85 | 109 | 81 | 104 | 102 |
| 1935 | 97 | 110 | 94 | 75 | 108 | 96 | 106 | 91 | 116 | 93 | 99 | 94 | 84 | 83 | 115 | 73 | 106 | 98 |
| 1936 | 106 | 83 | 92 | 69 | 105 | 82 | 111 | 90 | 114 | 83 | 94 | 93 | 84 | 87 | 120 | 78 | 105 | 94 |
| 1937 | 131 | 108 | 96 | 78 | 126 | 101 | 128 | 101 | 127 | 93 | 98 | 102 | 93 | 95 | 133 | 80 | 127 | 112 |
| 1938 | 192 | 72 | 94 | 74 | 127 | 99 | 134 | 108 | 122 | 89 | 99 | 93 | 95 | 91 | 137 | 91 | 130 | 112 |
| 1939 | 118 | 77 | 92 | 72 | 125 | 89 | 134 | 97 | 120 | 82 | 103 | 89 | 94 | 88 | 138 | 76 | 130 | 95 |
| 1940 | 124 | 77 | 96 | 71 | 123 | 89 | 141 | 106 | 127 | 82 | 104 | 90 | 97 | 89 | 142 | 77 | 130 | 98 |

TABLE 1—*Continued*

| Year | Leather group | | Lumber and timber | | Motor vehicles | | Newspapers and periodicals | | Petroleum refining | | Rayon | | Tires and tubes | | Meat packing | | Cigarettes | | Woolen and worsted | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* |
| 1929..... | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1930..... | 102 | 102 | 99 | 104 | 96 | 90 | 99 | 103 | 103 | 107 | 115 | 91 | 103 | 90 | 101 | 98 | 90 | 85 | 104 | 103 |
| 1931..... | 98 | 101 | 89 | 81 | 95 | 100 | 99 | 101 | 106 | 91 | 99 | 66 | 99 | 69 | 96 | 85 | 83 | 77 | 98 | 89 |
| 1932..... | 90 | 83 | 70 | 72 | 96 | 116 | 91 | 95 | 102 | 83 | 85 | 55 | 90 | 58 | 82 | 72 | 77 | 69 | 85 | 73 |
| 1933..... | 91 | 81 | 73 | 70 | 84 | 85 | 86 | 89 | 106 | 79 | 91 | 46 | 93 | 61 | 83 | 71 | 90 | 73 | 88 | 72 |
| 1934..... | 107 | 86 | 91 | 84 | 104 | 103 | 96 | 87 | 118 | 87 | 111 | 54 | 112 | 71 | 99 | 96 | 83 | 82 | 112 | 84 |
| 1935..... | 110 | 86 | 88 | 80 | 108 | 92 | 101 | 85 | 126 | 85 | 114 | 51 | 121 | 71 | 105 | 102 | 96 | 85 | 109 | 78 |
| 1936..... | 111 | 87 | 84 | 82 | 113 | 93 | 102 | 84 | 129 | 82 | 115 | 48 | 125 | 72 | 103 | 95 | 110 | 85 | 111 | 81 |
| 1937..... | 120 | 92 | 90 | 90 | 125 | 105 | 101 | 84 | 148 | 88 | 132 | 51 | 137 | 78 | 118 | 112 | 119 | 94 | 126 | 92 |
| 1938..... | 120 | 85 | 92 | 87 | 129 | 109 | 104 | 86 | 153 | 86 | 138 | 48 | 136 | 75 | 121 | 102 | 119 | 97 | 119 | 94 |
| 1939..... | 120 | 79 | 99 | 82 | 130 | 110 | 106 | 82 | 149 | 77 | 141 | 43 | 137 | 69 | 120 | 95 | 121 | 95 | 115 | 81 |
| 1940..... | 122 | 80 | 106 | 82 | 133 | 111 | 108 | 80 | 150 | 75 | 148 | 39 | 138 | 68 | 121 | 94 | 128 | 98 | 122 | 89 |

SOURCE: United States Bureau of Labor Statistics, *Productivity and Unit Labor Cost in Selected Manufacturing Industries, 1919-1940* (Washington, 1942). Indexes of unit abor cost are included in this report. Indexes of average hourly earnings were computed by dividing indexes of man hours into indexes of payrolls.

[a] *AHE*=Average hourly earnings.
[b] *ULC*=Unit labor cost.

TABLE 2

PERCENTAGE OF CHANGE IN AVERAGE HOURLY EARNINGS AND UNIT LABOR COSTS, MANUFACTURING INDUSTRIES, 1929–40

| Year | Agricultural implements | | Boots and shoes | | Cement | | Chemicals | | Cotton goods | | Flour, etc. | | Furniture | | Glass group | | Iron and steel | | Leather goods | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* |
| 1929–30.... | + 2 | −14 | − 4 | − 1 | − 1 | − 5 | 0 | 0 | 0 | + 4 | − 2 | − 7 | − 1 | + 1 | + 4 | + 1 | + 3 | + 9 | + 2 | + 2 |
| 1930–31.... | + 6 | +49 | −14 | −12 | + 2 | −11 | + 2 | −10 | −13 | −12 | − 5 | −10 | − 6 | − 4 | + 3 | −13 | −10 | − 6 | − 4 | − 1 |
| 1931–32.... | − | − | − 9 | −16 | −18 | −15 | − 7 | −11 | −15 | −22 | −11 | − 8 | −14 | −14 | − 9 | −11 | − 3 | − 8 | − 8 | −18 |
| 1932–33.... | −15[a] | +84[a] | + 3 | − 8 | + 8 | + 7 | − 1 | − 3 | +16 | + 8 | + 3 | + 3 | − 7 | − 2 | − 1 | −14 | − 3 | −10 | + 1 | − 3 |
| 1933–34.... | − | − | +20 | +17 | +22 | +20 | +10 | +25 | +36 | +29 | +15 | +15 | +15 | + 5 | +13 | +21 | +19 | +20 | +17 | + 7 |
| 1934–35.... | + 6[b] | −53[b] | + 2 | − 6 | − 2 | + 5 | + 3 | − 7 | − 1 | − 8 | + 1 | + 3 | − 4 | − 3 | + 5 | −10 | + 2 | − 4 | + 3 | 0 |
| 1935–36.... | + 9 | −25 | − 2 | − 8 | − 3 | −15 | + 5 | − 1 | − 2 | −11 | − 5 | − 1 | 0 | + 5 | + 4 | + 7 | − 1 | − 4 | + 1 | + 1 |
| 1936–37.... | +24 | +30 | + 5 | +13 | +20 | +24 | +16 | +12 | +12 | +12 | + 4 | +10 | +11 | +10 | +10 | + 3 | +21 | +19 | + 8 | + 6 |
| 1937–38.... | − 2 | −33 | − 2 | − 5 | + 1 | − 2 | + 5 | + 7 | − 4 | − 4 | + 1 | − 9 | + 2 | − 4 | + 3 | +14 | + 2 | 0 | 0 | − 8 |
| 1938–39.... | − 7 | + 7 | − 2 | − 3 | − 2 | −10 | 0 | −10 | − 2 | − 8 | + 3 | − 4 | − 1 | − 3 | + 1 | −16 | 0 | −15 | 0 | − 7 |
| 1939–40.... | + 5 | 0 | + 4 | − 1 | − 2 | 0 | + 5 | +10 | + 6 | 0 | + 1 | + 1 | + 3 | + 1 | + 3 | + 2 | 0 | + 3 | + 2 | + 1 |

TABLE 2—*Continued*

| Year | Lumber and timber | | Motor vehicles | | Newspapers and periodicals | | Petroleum refining | | Rayon | | Tires and tubes | | Meat packing | | Cigarettes | | Woolen and worsted | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* | *AHE* | *ULC* |
| 1929–30 | − 1 | + 4 | − 4 | −10 | − 1 | + 3 | + 3 | + 7 | + 5 | − 9 | + 3 | −10 | + 1 | − 2 | −10 | −15 | + 4 | + 3 |
| 1930–31 | −10 | −22 | − 1 | +11 | 0 | − 2 | + 3 | +13 | +14 | −29 | − 4 | −23 | − 5 | −13 | − 8 | −10 | − 6 | −14 |
| 1931–32 | −21 | −11 | + 1 | +16 | − 8 | − 6 | − 4 | − 9 | −14 | −17 | − 9 | −16 | −16 | −15 | − 7 | −10 | −13 | −17 |
| 1932–33 | + 4 | − 3 | −12 | −27 | − 5 | − 6 | + 4 | − 5 | + 7 | −20 | + 3 | + 5 | + 1 | − 1 | +17 | + 6 | + 3 | − 1 |
| 1933–34 | +25 | +20 | +24 | +22 | +12 | − 2 | +11 | +10 | +22 | +18 | +20 | +16 | +20 | +34 | − 8 | +12 | +28 | +17 |
| 1934–35 | − 3 | − 5 | + 4 | −11 | + 5 | − 2 | + 7 | − 2 | + 3 | − 6 | + 8 | 0 | + 6 | + 6 | +16 | + 4 | − 3 | − 7 |
| 1935–36 | − 5 | + 3 | + 5 | + 1 | + 1 | − 1 | + 2 | − 4 | + 1 | − 6 | + 3 | + 1 | − 2 | − 7 | +15 | 0 | + 2 | + 4 |
| 1936–37 | + 8 | +10 | +11 | +13 | − 1 | 0 | +13 | + 8 | +15 | + 6 | + 9 | + 9 | +15 | +18 | + 8 | +11 | +14 | +15 |
| 1937–38 | + 2 | − 3 | + 3 | + 4 | + 3 | + 2 | + 3 | − 2 | + 5 | − 6 | − 1 | − 4 | + 3 | − 9 | 0 | + 3 | − 5 | + 2 |
| 1938–39 | + 8 | − 6 | + 1 | + 1 | + 2 | − 5 | − 3 | −10 | + 2 | −10 | + 1 | − 8 | − 1 | − 7 | + 2 | − 2 | − 4 | −14 |
| 1939–40 | + 7 | 0 | + 2 | + 1 | + 2 | − 2 | + 1 | − 3 | + 5 | − 8 | + 1 | − 1 | + 1 | − 1 | + 6 | + 3 | + 6 | +10 |

SOURCE: Computed from table 1.

[a] 1931–33.

[b] 1933–35.

between "volume productivity" and "real productivity." "We must try to distinguish as sharply as possible between increase and decrease of productivity caused by larger or smaller output volume—volume productivity increase—and the increase and decrease of productivity caused by real improvement of production or organization—real productivity increase.... The trends in volume productivity are practically a direct consequence of the law of fixed costs. As business volume rises, the unit costs decrease automatically, within certain limits; with decreasing business volume they rise automatically.... This is not so with the real productivity increase caused by progress in technique and/or in business organization. In many industries, this progress is especially accelerated in times of business recession."[14]

The important point is that the impact of these changes over a future period is largely unpredictable. Even if all technological changes to be made during the forthcoming year were known, and even if the employer should present this information to the union in the collective bargaining conference, it would be very difficult to prophesy the labor cost of production. The future volume of output is even more speculative. The employer may have production plans and conceivably may reveal them to the union, but they are obviously tentative. The actual volume of output during the next year will depend upon factors which are not within the scope of decision and are not known when the wage bargain is made: the price and output policy of other employers, possible shifts in consumer demand, and the general condition of business. The last factor is clearly the most inscrutable of all. The record of economists and businessmen in their attempts to predict the course of the business cycle

[14] Julius Hirsch, "Productivity in War and Peace," *American Economic Review*, Vol. 36 (May, 1947), Supplement, pp. 401–403. Economists have frequently observed that there is a large measure of overhead cost in wage payments. This observation is corroborated by studies of labor cost in specific establishments. "During the years of declining volume from 1929–33 [at the International Harvester Company], unit labor costs fell less rapidly than wage rates, largely because when volume is small the company cannot use efficiently the senior, more highly skilled and hence better paid employees whom it retains on its rolls. Moreover, when smaller runs of a given machine or size are being produced, there is an increase in the cost of preparation and of shifting over from one model to another, and the productivity of labor is correspondingly decreased. From 1933 to 1937, on the other hand, a rapid expansion of output was accompanied by a smaller increase in labor costs than in wage rates. Technological changes and an increase in operating efficiency at high levels of output were largely responsible." In a shoe company, "there were ... substantial fluctuations in labor costs which were not associated with general changes in wage rates. For the most part these movements were due to the varying intensity with which services of employees paid by the hour were utilized, as a result of changes in the volume of production." And in the paper industry, "both technological improvements and fluctuations in the volume of output had significant effects on the unit labor costs of Companies A and B." T. N. E. C. Monogr. No. 5, pp. xix and xx.

is somewhat less than remarkable, and there is no compelling reason why labor leaders should be expected to do any better.

**b) Labor Cost and Total Cost.**—Let us now examine the relationship between unit labor cost and total cost of production. The first point to be noted is that labor cost is usually a minor proportion of total cost for a single establishment or industry. Table 3 shows the wage bill as a

TABLE 3

LABOR COST AS A PERCENTAGE OF VALUE OF PRODUCT, 1939

A. MANUFACTURING GROUPS

| | | | |
|---|---|---|---|
| Tobacco manufacturers | 5.2 | Apparel and related products | 19.7 |
| Petroleum and coal products | 5.9 | Iron and steel and products | 19.9 |
| Food and kindred products | 8.6 | Leather and leather products | 21.2 |
| Chemicals and allied products | 9.5 | Furniture and finished lumber products | 21.7 |
| Nonferrous metals | 11.6 | Miscellaneous industries | 22.9 |
| Paper and allied products | 15.3 | Stone, clay, glass products | 22.9 |
| Autos and auto equipment | 16.0 | Machinery (except electrical) | 23.0 |
| Rubber products | 17.9 | Textile mill products | 23.1 |
| Printing and publishing | 19.1 | Transportation equipment | 27.1 |
| Electrical machinery | 19.4 | Lumber and timber basic products | 27.7 |

B. NONMANUFACTURING INDUSTRIES

| | | | |
|---|---|---|---|
| Wholesale trade | 4.7 | Heavy construction | 32.8 |
| Retail trade | 10.8 | Building construction | 33.1 |
| Crude petroleum and natural gas | 11.3 | Railroads | 46.6 |
| Automobile repair | 19.1 | Power laundries | 51.5 |
| Metal mining | 24.3 | Pennsylvania anthracite | 56.6 |
| Highway construction | 29.1 | Bituminous coal | 59.2 |

SOURCES: *Census of Manufacturers* and *Census of Business*, 1939.

percentage of the value of product for a comprehensive listing of twenty major manufacturing groups and twelve nonmanufacturing industries in 1939, as reported in the *Census of Manufacturers* and *Census of Business*.

A more detailed analysis of ninety manufacturing industries has been made by the Federal Trade Commission.[15] Labor cost amounted to less than 15 per cent of the sales dollar in twenty-seven industries, between 15 and 20 per cent in seventeen industries, between 20 and 25 per cent in twenty-five industries, and more than 25 per cent in twenty-one industries.

Moreover, the total wage bill of a given industry may be affected by

[15] Federal Trade Commission, *Industrial Corporation Reports, Summary, 1940 Series* (Washington, 1943), pp. 27–28. Labor cost is defined as including direct and indirect labor in the "production" expense classification, but not under other classifications such as research, selling, and general office.

wage rates which are negotiated with a number of separate unions. This is the familiar joint-demand situation. Wages amount to 33.1 per cent of the value of product in the building construction industry, but it has often been observed that no single craft accounts for much of this. Newspaper publishers negotiate separately with the printing trades, the Newspaper Guild, the Building Service Workers, and the Teamsters. One of the major oil companies is reputed to deal with more than twenty unions. As collective bargaining is currently constituted, no single union is in a position to assume responsibility for what the others do, because it cannot control or predict the behavior of the others. The Electrical Workers cannot hold down the wage rates of the Carpenters by withholding a wage demand on their own behalf. In bargaining with newspaper publishers, or with an association of publishers, the Teamsters will not be materially influenced by the wage policy of the Building Service Workers. Particularism in wage policy is the inevitable result of a fractionalized bargaining structure. To expect one organization to ignore its own particular interest by "setting a good example" for the others is a delusive hope, when there is no assurance that the example will be followed. Responsibility requires authority.

It may be objected that statistics on labor cost as a percentage of total cost, industry by industry, give a very misleading impression of the real importance of labor cost in the economy. It is true that wages and salaries make up about 65 per cent of income payments in the economy as a whole, but this is not relevant here. Wages are not determined for the economy as a whole, but for particular bargaining units. We must look at costs of production as they appear in these units. Total cost of production consists of three major elements—labor, materials, and overhead—and in most industries, labor is the smallest of the three. The more particularized is the system of bargaining units, the more is this true.

Economists have often remarked that fractionalized bargaining structure creates an illusion of inelastic demand for labor by breaking up total labor cost into a multitude of segments. This understates the problem; from the standpoint of each individual segment, the demand for labor *is* inelastic. As pointed out above, there is little profit in exhorting one segment to establish its wage policy in the light of the elasticity of demand for labor over some larger area.

There is profit in discussing wage policy for the economy as a whole, or for a major segment thereof, but as yet there is no bargaining mechanism to which such a discussion can be related. There was such a mechanism during the war, but it is no part of our peacetime wage-determining system. Despite the trend toward fewer and larger decisions, our collective bargaining structure remains relatively fractionalized.

Not only is labor cost a minor fraction of total cost in most industries, but there is little correspondence in their movements. This is particularly evident during a period of rapidly changing business activity. In a depression, for example, the employer may succeed in reducing labor cost through a cut in wage rates, and in securing raw materials more cheaply; but the increase in overhead cost per unit may wipe out any reduction in direct expenses.[16] Conversely, labor cost and raw material cost may advance during a recovery, but the higher volume of production may reduce unit overhead cost to such an extent that the total expenses of production are lower. As the monograph of the Temporary National Economic Committee states, "it is this inverse relationship between trends in direct labor-and-materials costs and in unit-overhead costs which renders the relation between changes in labor costs and in total costs almost unpredictable."[17]

*c*) **Total Cost and Selling Price.**—Discussed under (*d*), below.

*d*) **Selling Price and Volume of Employment.**—We come now to the last two links in the chain. No extended argument should be needed to remind the reader that there is generally a great deal of indeterminateness in both cases. To analyse the looseness of the connection between cost of production and selling price on the theoretical level would require us to canvass a large and generally familiar body of doctrine on imperfect competition; and to describe it on the empirical level would require us to summarize at least a score of recent investigations of price policy. Certainly there can be no disagreement that many employers are in a position to pursue a price policy largely independent of fluctuations in cost over considerable periods of time, and do in fact pursue such a policy. Employers commonly emphasize the cost-price relationship as a debating point in collective bargaining, but it has been fittingly observed that ". . . businessmen tend to overstress the importance of costs in relation to their decisions on prices. . . . The only generalization possible is that costs have an obvious influence upon prices, and prices in turn upon costs; the character of the relation in any individual case and at any specific time must be individually appraised on the basis of all the attendant conditions. Needless to say, this leaves the effect of wage rate changes on prices even more indirect and remote."[18]

Finally, there is the employer's labor demand or the volume of employment in the enterprise. It goes without saying that a policy of price rigidity, which is so frequently encountered, breaks the chain altogether at this vital point. As Lester remarks, "where employers follow rather

[16] In other words, the cost curve may shift to the left, but if the employer is forced to operate at an uneconomical level of output, his total unit cost may be higher.

[17] T. N. E. C. Monogr. No. 5, p. xxi.

[18] T. N. E. C. Monogr. No. 5, pp. xxiv–xxv.

rigid price policies, each employer's rate of operations and demand for labor will be largely determined by the general state of trade, and his total employment may have no close and direct relationship to changes in wage rates."[19]

But even in the absence of price rigidity, the effect of price upon employment is not very clear-cut. A great deal depends upon the price and output policies of other employers, and the wage policies of other unions, none of which are within the orbit of control. Even if these were known in advance, the crucial question would be left unanswered. This, of course, is the future trend of business activity and consumer demand. The union and employer representatives who participate in collective bargaining are as ignorant of the future trend of business activity as are the stock-market forecasters. If it be true that "wage structures are bargained for in an essentially non-cyclical time setting,"[20] this may be the reason.

Thus, there are four links in the chain between wage rates and employment. At each juncture, there is a great deal of free play; and as a result, the initial and final links are so loosely connected that for practical purposes they must be regarded as largely independent. The uncertainty encountered at each individual stage is multiplied throughout the progression.

Therefore, when we assume that trade unions have a "wage-employment policy," we encompass a group of relationships which are bound together by insufficient and indeterminate causes. This refers to the necessary state of mind of those who participate in the bargaining process, rather than to the logic of theoretical analysis. In a logical exercise we can ignore external influences, so that the relationships appear rigorous and precise; but the external influences are so obtrusive in reality that they dominate the scene. Policy must address itself to reality. In the normal case the wage bargain is *not* regarded as a wage-employment bargain at the time it is made.

A number of objections might be made against the foregoing argument. It might be contended that the relationships are loose in the short run but more precise in the long run. Trade union leaders are frequently criticized for ignoring the long-run effect of their policies. But we should not confuse the conceptual long run of equilibrium theory with the passage of time. In the *conceptual* long run, under "normal price" analy-

[19] Richard A. Lester, *Economics of Labor* (New York, 1941), p. 121.

[20] Dunlop, *Wage Determination Under Trade Unions* (New York, 1944), p. 68. Dunlop notes that "the basic wage rate is regarded as a long-run price, usually set with an eye to non-cyclical circumstances." However, his explanation of this fact suffers from the highly artificial assumption that the union endeavors to maximize the total wage bill of the firm.

sis, the relationship between cost and price becomes tighter than in the short run. However, in the *chronological* long run, the line of connection between the wage rate and the volume of employment becomes less rather than more determinate. The more time passes, the greater are the changes in production and consumption functions and in other data which are regarded as given in equilibrium analysis. Twenty years from now, we will presumably have a bituminous coal industry of some size. Who will be able to say how much larger or smaller would have been the total employment in the industry in 1967 if the wage rate established by the Lewis-Fairless agreement back in 1947 had been 10 cents lower or 10 cents higher?

It may also be objected that all this is somewhat beside the point. Even though the line of connection between the wage rate and the volume of employment is extremely loose, we are certain of one thing: employment in the firm or the industry will not be greater with a higher rate than with a lower rate, and may be less. Therefore a moderate wage policy is more responsible than an aggressive policy. This objection does have a certain formal validity, but it logically implies that the lower the wage, the more responsible is the union. No economist would make such a statement, and no union leader would find it helpful. Moreover, the objection is fatally obtuse from a political standpoint. It is very difficult for a union official to forego a wage increase or to consent to a wage cut, or to recommend to his constituents that they do so. Union leaders rarely lose their jobs for being too militant, but often for being to conciliatory. When an official makes an unpopular decision, there must be a reasonable probability that the presumed benefit will actually materialize. If a 10 per cent wage cut in a particular firm or industry may be associated with anything from a 25 per cent increase to a 25 per cent decrease in employment, the range of error is too great. He cannot afford to take the chance.

Finally, attention may be called to certain instances of responsible union behavior which are so generously praised in the literature of labor economics. Outside the textile and garment industries, these cases are exceptional, not normal. But what of the oft-told tale of labor-management coöperation in the clothing industry? The important point is that in this industry the wage-cost-price-employment relationships were relatively clear and predictable. Under the piece-rate method of compensation, wage rates were closely linked with unit labor costs. Labor cost was a fairly substantial proportion of total cost; moreover, at the same time that wages were cut, the employers agreed to take other measures to reduce overhead and material costs. Because of the competitiveness of the industry, selling prices were closely related to total costs.

And inasmuch as the essential problem was one of meeting nonunion competition in the same industry, the volume of sales of union employers and the volume of employment in their establishments were clearly affected by their selling prices. (We may note, incidentally, that the Clothing Workers abandoned the policy in 1939 in favor of a policy designed to equalize labor cost throughout all markets.)

A similar incident which is often displayed as a model of responsible behavior is the action of the Hosiery Workers, who voluntarily accepted a wage cut in order to permit union employers to modernize their plants. Here again we must note the presence of piece rates, the prominence of nonunion competition, and the employers' agreement to take other steps of a cost-reducing nature.

But the typical case has little in common with these. Let us assume that a collective bargaining conference is held at some point during the course of a depression. The union leader is asked to accept a 15 per cent wage cut in order to avert a decrease in plant employment. He knows that unit labor cost will be lower than otherwise, but he has no assurance that it will decline 15 per cent, or even that it will decline at all. In any event, this would amount to only 3 per cent of total unit cost (assuming that labor cost is 20 per cent of total cost in the industry). Overhead cost per unit may increase to such an extent as to wipe out this small gain. But even if total unit cost should fall, and even if the employer should reduce his selling price correspondingly in order to improve his competitive position, the wage cut may be diffused throughout the industry, thus dissipating the employer's competitive advantage. If wage cuts become general throughout the economy, then purchasing power suffers.[21]

There are additional difficulties as well. The employer is reluctant to reveal confidential data concerning his financial position. The union suspects he is exaggerating, as he probably is. The union's research staff has supplied information indicating that the cost of living will advance during the next six months. The employed members of the organization, who are still in the majority, are not enthusiastic over the prospect of lower incomes. The union leader fears that it will be difficult to recover any concession which may be granted at the present time. Moreover, he knows that he will suffer politically if he accepts or recommends a wage cut which does not lead to the predicted results. In view of the fact that the connection between the prospective wage rate and the prospective

[21] The Keynesians were not the first to be skeptical about wage reductions as a remedy for unemployment. A careful study of union wage policy in the 1920–22 depression concludes that "in spite of the concessions made by the unions there was no subsequent marked improvement in the conditions of the trades which could be directly attributed to the concessions." V. J. Wyckoff, *The Wage Policies of Labor Organizations in a Period of Industrial Depression* (Baltimore, 1924), p. 108.

volume of employment is quite inscrutable, he can hardly wish to take the chance. If he does assent to a cut, it is not because of any substantial hope that employment in the trade will be increased, but only in the interest of keeping the peace with the employer and of maintaining the bargaining relationship.[22]

Although economic considerations are approached with great solemnity and argued with a fine show of confidence, they are not conclusive in the making of the bargain. The employment effect becomes a symbol in the service of partisan debate, and not a useful test of policy.

## Further Complications

There are additional difficulties in applying the theory of the individual firm toward an analysis of particular wage bargains. These result from the tautological character of marginal concepts according to the latest authoritative formulation.

The reader may already have been reminded of the recent controversy between Mr. Lester and Mr. Machlup over the marginal productivity principle.[23] I would not presume to make a final judgment upon the controversy, but it is relevant here. The central issue was whether or not the employer actually adjusts his operations to a change in wage rates in the manner postulated by the theory of the individual firm. In reply to Lester's criticisms, Machlup made a restatement of the theory in which "the concepts are to be understood as referring to subjective estimates and conjectures.... The time range of the relevant anticipations will depend on the circumstances of each case and will rarely be confined to the short run.... The estimates need not be reduced to definite numerical values.... Non-pecuniary considerations may effectively compete with those pertaining to the maximization of money profits."[24] Moreover, "an increase in wage rates may have very different effects depending on whether the employer (1) (*a*) has foreseen it, (*b*) is surprised by it; (2) (*a*) reacts quickly to it, (*b*) reacts slowly to it; (3) (*a*) expects it to be reversed soon, (*b*) expects it to be maintained, (*c*) expects it to be followed by further increases; (4) (*a*) assumes it to be confined to his firm, (*b*) assumes it to affect also his competitors, (*c*) believes it to be part of a

[22] In a recent conversation with a labor leader, the author asked what would happen to the wage schedule in the event of a depression. He replied, "I hope our members will have sense enough to take a cut. Our kind of labor isn't particularly scarce. The employers can break the union if they get mad enough."

[23] Richard A. Lester, "Shortcomings of Marginal Analysis for Wage-Employment Problems," *American Economic Review*, 36 (March, 1946): 63–82; Fritz Machlup, "Marginal Analysis and Economic Research," *American Economic Review*, 36 (September, 1946): 519–554; and subsequent communications by both authors in the March, 1947, number of the *American Economic Review*.

[24] Machlup, "Marginal Analysis . . . ," p. 533.

nation-wide trend; (5) connects it with an inflationary development; or is influenced by any other sort and number of anticipations. Most of these moods and anticipations can be translated by the economists into certain shapes or shifts of the marginal productivity functions of the firms. . . ."[25]

This is fine for the economist. He makes an orderly retreat into the realm of the incontestable, and rescues himself by strategic enlargement of definition. The system becomes so tautological that no businessman can possibly fail to equalize marginal net revenue product with marginal labor cost, just as no consumer can possibly fail to maximize satisfaction under the contemporary attenuated theory of marginal utility. Any proposition can be automatically validated in this manner.

But surely this is fatal to the notion that marginal analysis can usefully be applied in an endeavor to achieve optimum results in practical decisions. It may be argued that this is not for the economist to worry about; his primary concern is to protect the integrity of economic doctrine. If so, then we should frankly state to the labor negotiator that economic analysis cannot help him substantially in establishing a responsible wage policy under the present fractionalized bargaining structure.

A tautological proposition is automatically valid if simple rules of logic are observed, but it has no real explanatory value. Devoid of explanatory value, it is doubly lacking in predictive value. What is the position of the responsible labor leader who would like to anticipate the employment effect of his bargaining demands? He would have to predict the employer's adjustment to a change in wages. If we can assume that Mr. Machlup has made an authoritative theoretical formulation of how the employer will adjust, then the union leader must predict the employer's "subjective estimates and conjectures," which "will rarely be confined to the short run," which "need not be reduced to definite numerical values," and which may be affected by "non-pecuniary considerations." Moreover, he must know whether the employer "(1) (*a*) has foreseen it, (*b*) is surprised by it," and so on; and, finally, "whether he is influenced by any other sort and number of anticipations"!

The psychological subtleties in which the theory of the individual firm have been enmeshed give rise to fascinating problems in second-degree horizons and vicarious anticipations. But, when added to the difficulties already described in the preceding section, they provide a conclusive demonstration that the wage bargain must almost always be made without consideration of its employment effect.

[25] *Ibid.*, p. 548.

## What Is Responsible Wage Policy?

If responsible wage policy under present bargaining structure cannot be defined with reference to its employment effect, then how may it be defined?

We must begin by reviewing the role of the trade union official. He is the leader of a political instrumentality which has the same institutional drives as any political instrumentality: survival and growth. To facilitate the survival and growth of the organization and promote his personal advancement, he endeavors to reconcile the political pressures which are focused upon him in the bargaining process. These pressures emanate from the rank and file, from the employers, from other levels of the organization, from other sectors of the labor movement, and from the government. They must somehow be resolved into a feasible compromise. This is the job which he is called upon to perform.

The nature of the appropriate reconciliation depends upon the relative urgency of the pressures. The rank and file may be militant, inclined to strike, and receptive to the appeals of rival leaders; or it may be apathetic and safely loyal. The local union may be part of a highly centralized organization, governed by the policy of the international union; or it may be virtually autonomous. The employers may be well organized and determined to have their way; or they may be disorganized and anxious to avoid trouble. In the same way, other sectors of the labor movement and the agencies of government may or may not need to be reckoned with.

It has frequently been observed that in the absence of world government, sound international policy is a resolution of the national interests of the sovereign powers proportional to their strength and determination. By the same token, in a system of fractionalized bargaining units, sound collective bargaining is a successful resolution of the political pressures which are focused on leadership in the bargaining process. A good bargain is one which provides a *modus operandi* and keeps the peace. It holds the rank and file in line. It discourages raiding on the part of rival unions. It satisfies the employer to such an extent that he is not inclined to make desperate attempts at union smashing or to leave the industry altogether. It is compatible with the union's responsibility toward other levels of organization. It creates a measure of certainty and a basis of planning for a year or two ahead. It strengthens the fealty of the union toward the private-ownership system of production.

Such a definition of responsible wage policy may appear somewhat unsatisfactory. But imagine the consequences of a wage bargain which was not oriented to the reconciliation of political pressures. Imagine the

rank-and-file revolts, the disorganizing jurisdictional raids, the bitter union-management conflicts involving the survival of one or another, and the incitement of anticapitalist agitation. The mobilization and education of a vast industrial labor force have already created severe problems of maintaining social stability. Would a nonpolitical wage bargain mitigate or aggravate these problems?

## Conclusion

The foregoing analysis may be summarized as follows:

1. The most popular conception of responsible union wage policy is that it should give adequate consideration to the employment effect.

2. Under contemporary bargaining structure, this requirement is almost always impossible of being fulfilled.

3. Wage policy does have political responsibilities which are poorly appreciated but highly important for the maintenance of law and order in industrial life.

In view of these conditions, it may be inquired what can be done so that wage policy may become economically as well as politically responsible.

It is well to indicate at the outset the limits of possible reform. Union behavior will never satisfy the economist completely. A trade union is a political organization, and cannot be expected to address itself principally to the attainment of economic objectives. Moreover, when the employment effect is approached on a particular equilibrium basis, the inevitable conclusion is that the lower the wage in the collective agreement, the more likely it is that employment will be higher in the firm. This is not helpful to the union.

However, it is possible to indicate certain conditions under which the employment effect of the wage bargain would be more predictable than at present, economic analysis more useful in the service of wage policy, and normative economic standards more compatible with the political requirements of a sound settlement.

Erratic fluctuations in business activity are clearly the most significant factor accounting for the indeterminateness of the wage bargain. Largely because of these fluctuations, wage rates and unit labor cost do not move together; unit labor cost and total unit cost frequently move in opposite directions; the effect of a change in cost upon price and the effect of a change in price upon employment cannot be foretold with any degree of confidence. Fluctuations in the general price level, which run concurrently with fluctuations in business activity, contribute in their own right. The assurance of stability in the volume of output and the level of prices would contribute more than anything else toward correcting this condition.

We have seen that the union as an organization and the union leader as an individual must adjust themselves to a group of political pressures. The more impelling are these pressures, the more difficult it is for the union leader to observe the canons of business morality. A secure union is better insulated from political pressures than an insecure union. Union security—defined broadly as security against the apathy of workers, the enmity of employers, the rivalry of competing unions, and the hostility of legislative bodies—is the *sine qua non* of responsible behavior. This is the point which Golden and Ruttenberg have argued so persuasively,[26] and with which most informed students of collective bargaining would readily agree.

But a responsible union is not enough. A responsible wage bargain is quite as important. A small bargain cannot be responsible. It cannot answer for its consequences, since they are impossible to isolate. It cannot control the decisions of others, and it cannot afford to set an example. The particular interest of those immediately concerned is inevitably paramount; the general interest of the economy at large cannot be influential. What is needed is a wage bargain of sufficient magnitude to reflect the true significance of wages and salaries in the national income and to permit the larger questions of economic policy to be considered.

Tendencies toward integration of bargaining structure have already been described. Company-wide agreements are substituted for single-plant bargains; multiunion bargaining grows in popularity. As the orbit of comparison widens, patterns and precedents assume greater importance. We have now reached the stage of uniform industry-wide adjustment of wages in many of our major industries, by virtue of formal bargaining organization in some cases and informal comparison in others.

But this is still a far cry from the master wage bargain, which alone could imply responsibility for the volume of employment or other economic objectives. A master wage bargain, to which the government could not avoid becoming a party, is in many ways the antithesis of "free collective bargaining." Nevertheless we are driven ineluctably to agree with Slichter when he states, "The greatest possibilities of collective bargaining . . . will probably not be achieved until representatives of labor as a whole and of business as a whole are able to fix the broad outlines of a national wage policy."[27]

To explore possible devices by which organized labor and organized business might fix the outlines of a national wage policy would take us

[26] Clinton S. Golden and Harold J. Ruttenberg, *The Dynamics of Industrial Democracy* (New York, 1942).

[27] Sumner H. Slichter, "Labor After the War," in *Postwar Economic Problems* (New York, 1943), p. 254.

beyond the scope of this account. We may note, however, that Beveridge came to a similar conclusion with respect to a full-employment economy with strong and secure unions. He states that "in a full employment economy, great responsibility continues to rest with the trade unions and employers' associations—but a responsibility which transcends the compass of individual unions and industries and can be properly discharged only if every sectional wage bargain is considered in the light of the economy as a whole." He suggests that "the central organizations of labor . . . should devote their attention to the problem of achieving a unified wage policy which ensures that the demands of individual unions will be judged with reference to the economic situation as a whole."[28]

An integrated wage policy for the United States seems rather remote at the present time. It may develop, however, when we resume the course toward mature industrial relations. Only then will negotiators be in a position to assume responsibility for the consequences of their decisions, and only then will economic analysis be of substantial assistance to them in discharging this responsibility.

[28] William H. Beveridge, *Full Employment in a Free Society* (Amer. ed.; New York, 1945), pp. 199–200.

# V. UNION-MANAGEMENT RELATIONS AND THE WAGE BARGAIN

WE HAVE SEEN that union wage policy is directed toward survival and growth of the organization, and that union officials, in order to accomplish this aim, are required to reconcile a diverse group of pressures emanating from essentially political relationships with the rank and file, the employer, other levels of the union, other unions, and the government. How the wage bargain is affected by the relationship with the employer will be dealt with in the present chapter.

In the conventional view industrial relations are regarded as largely economic in character. According to this view, the stakes in collective bargaining are measured in dollars and cents. The principal parties involved are the workers (Labor), who make wages, and the owners (Capital), who make profits. The collective agreement is an instrument for splitting the melon or cutting the pie. Strikes occur when Labor and Capital are unable to agree on a peaceful economic settlement. Good industrial relations are likely when the parties are economically compatible—when the employer's ability to pay and willingness to pay are consistent with the workers' minimum demands. The employer's ability to pay and willingness to pay are affected by such things as competitive conditions in the product market, the importance of wages as an element in total cost, and the possibility of substituting machinery for labor.

For reasons already explained, the economic aspect of industrial relations has not been emphasized in these chapters. That it is highly significant no one would wish to deny. But there is also a political aspect, which is largely ignored in the conventional view. The stakes in collective bargaining are not only wealth and income, but also power and prestige. The principals are not only the workers and the owners, but also the union and the management. The collective agreement embodies, not merely an economic settlement between workers and owners, but also a provisional political settlement between union and management. Certain provisions of the collective agreement are "worker-oriented," setting forth the "wages, hours, and working conditions" or the "terms and conditions of employment"; other provisions are "union-oriented," defining the rights and privileges of the organization and protecting the residual prerogatives of management. Good industrial relations are likely when the parties are politically compatible—when the management is willing and able to concede that measure of sovereignty and provide that degree of security which the union wishes to obtain. Industrial conflict may result, not only from a quarrel over cutting the pie, but also from the absence of a stable power settlement.

If the term "political economy" were not already associated with Ricardo's entirely nonpolitical economy, it would fit very well here.

If we were forced to decide whether the economic or the political aspect of industrial relations is the more crucial, there would be weighty arguments on the side of the political aspect. We have already noted that neither unions nor management are willing to arbitrate the institutional or "union-oriented" provisions of the collective agreement; and that when management acquired effective legislative power in the Eightieth Congress, its attack was directed, not against the workers, but against the unions. We can also note how much money employers are willing to spend, on occasion, to beat off unionization or to buy it off. We can recall that personnel administration flourished in the 1920's and that "human relations in industry" are flowering in the 1940's.[1] We can observe a history of good industrial relations in certain low-profit industries (such as pottery and railroading), in which prospects for an economic settlement would seem on the surface to be poor; and a history of bad industrial relations in certain high-profit industries (such as the automotive industry), in which one would expect the parties to be entirely compatible from an economic standpoint. Finally, we can call attention to instructive analogies in public life and in international affairs. Was it not a just observation that Roosevelt was disliked by the business community because he reduced their power and prestige, even though he increased their profits? And is it not significant that a nation will permit its citizens to endure the most extreme hardship as a result of the nearsighted commercial policies of another nation, but will rush to arms when its territorial sovereignty is menaced?

However, there is no need to decide here which aspect of industrial relations is more crucial as a general rule. It will suffice for the present purpose to establish that the political aspect is paramount in many specific instances. When this is true, then the rate of wages is likely to become an instrument of strategy. In any conflict situation, effective strategy requires that primary issues be given first place and secondary issues be subordinated. Just as the North African military campaigns cannot be analyzed in their own terms, many wage disputes cannot be understood until it is recognized that they are subordinate to the pursuit of political advantage. Wage bargaining and strike strategy are converted into propaganda weapons. Under these circumstances the wage rate is more than the price of labor; it becomes a tool for manipulating the loyalty of workers and the approval of the public, and a symbol of victory or defeat in the contest between union and management.

[1] It is not argued that the *only* purpose of these techniques is to discourage unionism. This is *one* of their purposes, however.

## Wages in the Organizing Period

There are two standard methods of organizing which are available to a union. One is to organize the employer; the other is to organize the workers. The first was the more customary method prior to the National Labor Relations Act, and is still widely practiced. It is no longer legal for an employer to grant a closed shop or a union shop without consulting his workers, but he still has the right to recognize the union without proof of majority representation.[2] Even without a "sweetheart contract," the employer is in a position to give the union a great deal of assistance in the task of enrolling his workers if he himself has already been organized. There are several reasons why the employer may decide to deal with the union. Most commonly, the union presents itself as a desirable alternative to some other union. It may threaten the employer with an organizational picket line or a secondary boycott. The employer may wish to have a source of qualified labor, or to win the good will of working-class consumers, or to participate in stabilizing the industry by "taking labor out of competition."

Organizing the employer is the most simple and economical method of building the union. The difficulty is that the majority of employers prefer to operate open shop. They may negotiate in good faith once they are forced to recognize the union, but they will oppose it by all feasible means until recognition becomes inevitable. In addition, there are a few employers who remain genuinely neutral.

When the employer declines to be organized, the union has no choice but to organize the workers. This is vastly more expensive, troublesome, and time-consuming, but very often the only available method. It is when the union attempts to organize the workers against the employer's opposition that the rate of wages becomes a tool in the contest.

Theoretically it is a violation of the National Labor Relations Act for an employer to grant a wage increase for the purpose of discouraging the organizing efforts of the union. The National Labor Relations Board has found employers guilty of an unfair labor practice in several specific cases of this kind. For example, it is hazardous to grant a wage increase after the date for a bargaining election has been set. Short of manifest indiscretion, however, it is only an elementary precaution for the employer to match the wage scale and the wage increases attained by the union in comparable establishments. Some employers make a policy of exceeding the union scale, and are able to forestall organizing efforts altogether.

A wage increase intended to allay discontent and restrain organizing

[2] However, this is not always feasible when two or more unions are striving for representation rights.

efforts may move across a whole industry and even between industries. A publication of the Twentieth Century Fund states, "From 1933 to 1937, the Akron [rubber] companies granted six general wage increases ranging from 6 to 10 per cent. Without doubt their intent was to forestall the union if possible."[3] The 10-cent increase granted by the Weirton Steel Company during the organizing compaigns of the Steel Workers Organizing Committee in 1937 initiated a wage movement that spread throughout heavy industry.

The countermaneuver of the union is to argue that the wage increase would not have been granted had it not been for the organizing campaign. This argument is likely to be used whether or not there is definite proof of antiunion motivation.

When the union has won recognition, it requires a wage increase in the initial collective bargaining agreement. It there are exceptions, they are not numerically significant. At this juncture, the union is interested not so much in attaining any particular level of wages as in having something tangible to show for its efforts. Even when the fact of recognition is in itself a major accomplishment, the union will realistically insist on a wage adjustment. Here is one instance in which a union-oriented gain (recognition) must be accompanied by a worker-oriented gain (a wage increase) in order to hold the membership during the initial months of the bargaining relationship. Recognition of the Steelworkers by the United States Steel Corporation in 1938 was a major accomplishment in itself and well worth the organizing efforts from the standpoint of the union's strategic objectives; nevertheless, it was coupled with a wage increase in the Taylor-Lewis agreement.

The union's need for a wage increase at the point of recognition is no smaller because the employer may have granted one during the period of organization, and no greater because employer may have refrained from doing so.[4] The prerecognition increase was granted to the workers directly; the postrecognition increase is granted to the union, or at any rate through the union. Nothing illustrates so well the essential distinction between an organization and its members.

For the same reason, a successful organizational strike requires a wage increase as a part of the settlement. Even the union shop provision conceded by the Ford Motor Company in 1941, which was a highly signifi-

[3] Harry A. Millis, ed., *How Collective Bargaining Works* (New York: Twentieth Century Fund, 1942), p. 664.

[4] An attorney with many years of experience in representing unions told the author, "We tell the employer we have to have an increase. He says, 'But I just gave them an increase two months ago.' Then I say to him, 'Yes, you gave an increase. Now you have to give two increases. If you hadn't tried to break the union, you would only have to give one increase. We are sorry for you.' "

cant strategic gain for the UAW-CIO, did not eliminate the need for a wage increase, which was granted in the return-to-work agreement.

## Wages in Union-Management Conflict

Union-management conflict is not always restricted to the period of organization and recognition. There is chronic controversy in some enterprises, such as the General Motors Corporation, and in certain entire industries, such as the longshore industry on the West Coast; and occasionally feelings between the general business community and the totality of organized labor become embittered.

What is chiefly involved in these contests is the balance of power between management and the union—"union status" *versus* "managerial prerogatives." Inasmuch as management had almost complete sovereignty in the first instance, its strategy is generally defensive, whereas that of the union is generally offensive. Management attempts to preserve what it considers to be essential prerogatives for the conduct of enterprise; the union endeavors to win what it considers to be its proper and legitimate role in the industry. When controversy becomes intense, the employer condemns the union for undermining free enterprise, and the union accuses the employer of attempting to destroy the labor movement. When Bakke listed the chief complaints of management against unions in 1946, first place was given to "infringement on management's functions, prerogatives and freedom"; at the same time, union leaders were grumbling against "resistance to increasing the area of terms and conditions of employment to be bargained collectively."[5] One year previously, the President's National Labor-Management Conference had been unable to agree on a definition of the "functions and responsibilities of management."[6]

Contested areas of sovereignty differ somewhat from one case to another, but one common characteristic may be noted. Powers assigned to the union as an organization, rather than benefits accruing to the rank and file as individuals, are involved. That is to say, union-oriented rather than worker-oriented provisions of the agreement are in dispute. These powers lie in the realm of management of the labor force. American unions in general are agreeable that production and price decisions be made by the employer; but they do demand a share of authority in deciding who is to be hired, fired, laid off, recalled, promoted, or disciplined. These are the stakes in the political controversy between management

[5] E. Wight Bakke, *Mutual Survival, the Goal of Unions and Management* (New Haven, 1946), pp. 20 and 53.

[6] *Report of the President's National Management-Labor Conference* (Washington: United States Department of Labor, 1946), pp. 56–62.

and the unions. Every collective bargaining agreement represents a provisional settlement of what is mine and what is thine, but a final and conclusive settlement is still to be made in a large number of industries.

The conflict is waged in several theaters, of which the most crucial are the minds of the workers and of the general public. Who gives the worker his job—the union or the employer? Who gives him his promotion? Who tells him the truth and who tries to fool him? Where does he look for justice? Should he rely on the union's militance or the employer's benevolence? One of the central objectives of personnel administration is to help the workers count their blessings, and the first principle of union strategy is to make the workers remember their grievances. In the same way, each party is constantly appealing to the general public to note how patient and long-suffering it is in the face of the opposing party's provocative actions.

Under these circumstances, both parties are likely to manipulate the wage issue in the pursuit of political advantage.

The employer must tread carefully so as not to commit unfair labor practices. He cannot put a wage increase into effect unilaterally after refusing one in negotiations, in the absence of prior consultation with the union or while negotiations are in progress. However, he can announce his "final offer" before the beginning of negotiations and refuse to improve it thereafter. This puts the union in a difficult position if the offer is a good one. If the initial tender is accepted, the members will conclude they would have fared as well without a union; and if a strike is called, the union appears guilty of unreasonable behavior. Union members ordinarily expect their leaders to secure more than the employer initially offers; therefore, if the employer really wants a peaceful settlement, he should not offer too much too soon.[7]

The union may insist that its wage demand be negotiated in a manner which implies joint consideration of "managerial prerogatives." The celebrated controversy between General Motors and the Auto Workers over "ability to pay" is a case in point. Both parties assumed an exaggerated position before the workers and the public. The Union stated that it would withdraw its demand entirely if the Corporation could prove inability to pay. In view of rank-and-file pressure for a wage increase, this was highly unlikely. The Corporation contended that ability to pay had nothing to do with wage adjustments, although it had argued

[7] During the closing months of 1945, major oil producers announced their willingness to grant a 15 per cent wage increase, which would have been equivalent to an average of 19 cents per hour throughout the industry. The announcement was made before serious negotiations had begun. During the subsequent strike of the Oil Workers, an official of the Union told the author that a 15 per cent increase would have been entirely acceptable if it had been worked out in negotiations.

in 1942 that it could not afford a 4-cent increase awarded by the National War Labor Board. The real conflict between the parties centered on the status of the union as a governing force in the industry. The Auto Workers feel they are in the vanguard of a "new unionism"; the Corporation considers itself the chosen defender of free enterprise. The real stakes were greater than the size of the wage increase, and the "ability-to-pay" dispute can be appraised only as a temporary skirmish in a chronic and more fundamental controversy.

When union-management relations are bad, each party addresses its equitable arguments to the workers and the general public. It is of no great importance that the arguments are not persuasive to the opposing party, for that is not the purpose.

Another popular tactic is for one side to offer to submit the wage issue to arbitration along with some other issue which it knows the other side to regard as nonarbitrable. The general public is endeared to arbitration and naturally feels that the party which offers to arbitrate is more reasonable than the party which refuses. But there are certain matters which neither party is willing to compromise—the "basic union conditions" and the indispensable "managerial prerogatives."[8] Union officials ordinarily know well enough the points on which the employer is unwilling to relinquish sovereignty, and vice versa, but the general public is not so well informed. Therefore the union can make a spurious show of good faith by proposing to arbitrate wages along with a health and welfare plan, and the employer by proposing to arbitrate wages along with the union security clause.

One party or both may desire a strike. The union may feel that a strike is necessary in order to cement the solidarity of members and serve as a ritual affirmation of the conflict between Labor and Capital. It may be necessary to convince the employer of the union's ability to strike. Hicks observes that "weapons grow rusty if unused, and a union which never strikes may lose the ability to organize a formidable strike. The most able Trade Union leadership will embark on strikes occasionally . . . in order to keep their weapons burnished. . . ."[9] The employer may believe that he can discredit the union with the public if he is able to provoke a strike, or that he may be able to break the union by engaging unor-

[8] It was observed more than twenty years ago that "the objective gains toward which a union works may be divided into two groups. First there are the conditions of work which are regarded as fundamental to the growth and life of the organization. Second come the supplementary gains. It is natural that the high valuation of these gains should involve in their defense the most determined resistance by the union when necessary." V. J. Wyckoff, *The Wage Policies of Labor Organizations in a Period of Industrial Depression* (Baltimore, 1924), p. 111.

[9] J. R. Hicks, *The Theory of Wages* (London, 1932), p. 146.

ganized workers, or that there is not much point in producing in the present condition of the market, or that "they need to get it out of their system and might as well do it now."[10]

When a strike seems desirable, it is important to place the onus on the other party. This is done by persuading the employees and the general public that the other party is unreasonable and will not bargain in good faith. The techniques already mentioned can be used for this purpose. In addition it is usually feasible to misrepresent the position of the adversary on at least one issue in dispute. The union can argue that the employer's proposal for a job evaluation plan is a "wage-cutting drive," and the employer can characterize the union's maintenance-of-membership demand as a "closed shop monopoly." Either party can suddenly throw into negotiations a demand which it knows the other party cannot or will not grant. The employer can offer a wage increase 1 or 2 cents less than the amount which the union is obviously required to "deliver." Of course, a strike can be provoked in many other ways which are not related to the wage issue.[11]

[10] A strike may also be necessary because the major requirement for a settlement cannot be achieved at the bargaining table. Some of the industry-wide strikes of 1945–46 resulted from the fact that employers were unwilling to grant wage increases without prior assurance of "price relief." The extent of a price increase could not be decided at the bargaining table, and the Administration's wage-price policy ostensibly precluded price relief except under rare conditions. It was necessary to precipitate an economic crisis before employers could obtain the assurance they required. Under these circumstances, the motions of collective bargaining preliminary to the strike amounted to little more than empty ceremony, conducted with pomp and solemnity for the satisfaction of the press and the public. The best example is the steel strike, during which the Steelworkers stood impatiently by while Mr. Fairless and Mr. Snyder bargained collectively with Mr. Bowles over the ceiling price of steel. Similarly, the first coal strike of 1946 did not have the purpose of persuading the mine owners to negotiate a health and welfare fund. Its real purposes were to reduce stockpiles of coal so as to increase public pressure for a settlement, and to bring about government seizure of the mines so as to negotiate a more favorable contract than could be secured from the private owners.

Situations of this type have been neatly characterized in theoretical terms by Professor William Fellner in his paper on "Prices and Wages Under Bilateral Monopoly." The term "permanent stalemate" represents a failure to arrive at a bargain between the upper and lower limits. In wage bargaining, a "permanent stalemate" would presumably lead to a strike. Professor Fellner states that "in the usual kind of business relations, a permanent stalemate is unlikely. However, a permanent stalemate is less unlikely, in cases in which something in the nature of a *deus ex machina* is expected from the stalemate. The *deus ex machina* usually assumes the form of a non-economic process, which may be started by the existence of the stalemate itself, and which, once started, is likely to change the basic relationship in which the two parties stand to one another.... Consequently, a permanent stalemate is more likely... to develop in negotiations that have political implications than in the usual kind of business relations." *Quarterly Journal of Economics*, 61 (August, 1947): p. 531.

[11] The public tends to think of the strike as a union weapon and of the lockout as the corresponding employer weapon. Many authors in the field of labor economics follow the same practice. There are many more strikes than lockouts, and therefore

In some instances, the bitterness of strikes is wholly out of proportion, not only with the monetary sums involved, but also with the institutional advantage weighing in the balance. These cases can be explained only by personal antagonism; the settlement becomes a symbol of personal victory or defeat. Normally, however, the stakes are more substantial and the strike is more rational from the standpoint of the party which provokes it. This means that a strike does not necessarily represent inadequate bargaining. Hicks recognizes that strikes are called to "burnish the weapon" and for other reasons, but his final judgments are that "the general presumption is that a strike is a sign of failure on the part of the union officials" and that "the majority of actual strikes are doubtless the result of faulty negotiations."[12] The implication is that most strikes could be eliminated by more intelligent bargaining, more accurate knowledge, and more effective mediation machinery. No doubt many strikes can be prevented in these ways, but many others would occur even in the absence of uncertainty, miscalculation, or irrationality.

## Wage Bargaining as a Form of Mutual Aid

The union-management relationship is not always one of conflict, however. Once a basic power settlement has been made, a valuable cooperative relationship may develop. The employer may accept the union as an agency for supplying qualified workers, imposing industrial discipline, and contributing generally to the management of the enterprise. He may believe the union serves a useful purpose in sifting the demands of the rank and file, rejecting unreasonable grievances, and holding in check a potentially fractious working force. The union official may believe that the employer is setting a good example for the rest of the industry, that he is willing to live with a union, and that he is generally dealing in good faith. This situation, representing political compatibility, is often referred to as a mature bargaining relationship. In these circumstances the employer will want to assist the union official in maintaining his relationship with the rank and file. How much is needed to "keep them happy" becomes an important consideration.

Wage negotiations may proceed roughly as follows: The union official

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most stoppages are attributed to unions. Actually there are two parties to every stoppage, equally in disagreement with each other. The only essential difference between a strike and a lockout is that the union takes the first overt step in one case and the employer in the other. But ordinarily the union *must* take the initiative if the issue is to be forced, because the employer is in a position to offer employment on whatever terms he is willing to grant. Almost all the provisions of the collective agreement are administered by the employer. To levy blame for a stoppage requires a more sophisticated analysis than one which merely identifies the party making the first move.

[12] Hicks, *Theory of Wages*, p. 146.

points out that he has to "deliver," explains the reasons, and asks for a 15 per cent wage increase. The employer expresses sympathy with his problem, but points to high taxes, market uncertainty, and so forth, and offers 8 per cent. The official doubts that 8 per cent could be "sold" to the membership, and states that he is unwilling to "go out on a limb" by recommending such an increase, for fear of being considered "soft" or a "company man." He reminds the employer that there is some sentiment among the rank and file in favor of a rival organization, or in favor of an inexperienced and crudely militant candidate for union office. The employer asks him to report the offer to the membership without recommendation. This is done, and the offer is rejected. The employer then asks whether the membership might "go for" a 12 per cent increase. The official agrees to make an attempt to "sell" the compromise, if the employer will furnish him with arguments and statistics, suitable for presentation to the membership, showing why the company cannot afford to pay more. A corresponding request is made by the employer, that the official furnish him with statistics which might be persuasive to the board of directors. Thus an agreement is consummated.

If the employer is disinclined to grant a wage increase, he may offer the union some institutional benefit as an alternative. This is the familiar "horse-trading" process, although the substitution of a union-oriented gain for a worker-oriented gain is not really the exchange of equivalents.

The union official stands midway between the worker and the employer. The workers expect him to be a forthright representative and a fearless fighter on their behalf; the employers expect him to deal in a reasonable, business-like manner. From the workers he hears of the high cost of living; from the employers he learns of the expenses of purchasing, processing, and marketing. If he is to do a workman-like job and enjoy satisfactory personal relationships, he must build his fences and keep them mended on both sides. If he is to play the dual role assigned to him and meet the dual obligations imposed upon him, he must have the cooperation of the employers with whom he deals as well as that of the members whom he represents. Just as he looks to the sympathetic employer to assist him in keeping his people happy, so does he look to the sensible union member to refrain from embarrassing him in his relationship with the employer, and from depreciating him in the estimation of the business community.

The confidence and respect he enjoys in the assessment of the employer, as "a fellow you can do business with," will exert a certain measure of control over the size of the union's wage demand. While insisting on "a fair shake" for the members he represents, he will not

wish to do excessive violence to the employer's notions of equity. Making allowance for the normal attrition or necessary shrinkage in a wage increase between the point of original demand and the point of ultimate settlement, he will not wish to enter negotiations with a demand that appears frivolous or unreasonable. Thus there are conventional limits to the magnitude of change which will be considered feasible at any one time. Only the entertainment unions seem to be free of these inhibitions, but musicians and actors are notably unconventional.

A local union in the San Francisco Bay area, representing approximately 1,600 members, recently had occasion to formulate a wage demand to be advanced in the renegotiation of its contract. Over the opposition of the business agent, the membership voted to request a wage increase of $3.00 per day (or 37½ cents per hour). The business agent complained that he would find it difficult to support this demand seriously. Later in the week a number of members repented the resolution, expressed regret for having put the business agent "out on a limb," and suggested that a second meeting be called. At this second meeting, the business agent stated that a wage increase of $2.00 per day, or 25 cents per hour, could be supported wholeheartedly because it would raise the cost of the product by only 1 cent per unit, which could easily be absorbed at the retail level.

During an interview with one of the business agents, it was pointed out that the $3.00 demand would have raised the cost of the product by only 1½ cents per unit. The business agent conceded this point, but explained that the $3.00 demand would have been considered irresponsible by the employer representatives. It would have impaired the satisfactory working relationship with the employers' association which had been built up over a period of years. Moreover, there was always the possibility of arbitration. The $3.00 demand would have seemed unreasonable to an arbitrator and would have reduced the value of the union's arguments.

There are other circumstances under which wage bargaining is used as a form of mutual aid. If the employees of an establishment are represented by an independent union which the employer prefers to an "outside" or affiliated organization, he may adopt the policy of paying higher wages than are currently paid to members of the affiliated organization in comparable establishments. If an employer bargains with two unions, he may deal more generously with the one he prefers. There are many workers who would earn substantially lower rates of pay if their union were not considered the lesser of two evils. It is not unknown for a group of workers to receive a particularly generous increase because of the political attitudes and affiliation of their leader.

Finally there is the pure and simple company union. During the year 1945, an attorney for a manufacturing company in the East told the author that the company's plants would be struck within two or three weeks over the issue of wages. This was surprising for two reasons: the union was rather obviously a company union, and the company was making no attempt to avert the stoppage. The strike was conducted on schedule with a considerable show of belligerence, after which a sizable wage increase was granted by the company. It later developed that the National Labor Relations Board had been investigating the relationship between the union and the company, on the suspicion that the union was company-dominated.

## Conclusion

We have noted that union-management relations have a political aspect as well as an economic aspect, and have described the manner in which wages are manipulated as a weapon of conflict in some cases and are utilized as an instrument of coöperation in others.

The crucial fact is that the union has to "deliver," or at least give the impression of delivering, in order to hold the allegiance of members. Describing the attitude of workers toward the union, Selekman states that "they look to it . . . for a rising standard of living, for economic security, for industrial citizenship, for more spelled out in many ways beyond the pay envelope. Thus the union leader is continually subject to challenge by the crucial test of how much he gets his members. . . . He must maintain constant watch over supporters and rivals who readily promise more. He wins his position and then retains it always as a political leader."[13]

Unless the union is unusually secure, it must deliver at frequent intervals. The fact that it may have delivered in the past does not eliminate the necessity for delivering in the future. As a prominent politician said, Roosevelt lost the farm vote in 1940 because he had done more for the farmer than any other president but hadn't done it recently. The more pronounced is the political contest with the employer, the more necessary it is for the union to show tangible results.[14]

[13] Benjamin M. Selekman, *Labor Relations and Human Relations* (New York, 1947), p. 177.

[14] The fact that union leaders are more concerned with money wages than with real wages has often been noted. The real wage, of course, is a more significant index of purchasing power and economic welfare; but there are compelling reasons for union emphasis on the money wage. In the first place, an individual union can have very little influence over the price level. Even if workers as a whole would be better off by refraining from wage demands, the workers in a single industry would be still better off by making a wage demand while others refrained. Moreover, there is no proof that others will refrain merely because they do.

The second reason is probably more important. It is not a matter of indifference to

In a progressive economy, there is frequent occasion for wage increases and other rank-and-file benefits, which are made possible by the enhancement of productivity. Therefore, it does not necessarily create an impossible situation that the union wishes to deliver at frequent intervals. To be sure, it may wish to deliver more than the employer is prepared to grant; then the position becomes difficult. But even when there is enough money to go around, there may not be enough gratitude. The benefits are available, but will they take the form of union gains or employer bounty? Mature industrial relations will never be secured so long as both parties consider it necessary to monopolize the gratitude of the rank and file. Gratitude is pleasant to receive, painful to lose. But unions and employers who seek mature industrial relations will recognize that the attainment of maturity is a difficult process, demanding many difficult choices; and that gratitude is not the only basis for effective cooperation.

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a trade union whether a given increase in real wages is secured through an advance in money wages or a fall in the general price level. By the same token, it is not a matter of indifference whether a given decline in real wages is redressed by one method or the other.

When money wages rise, the union has delivered; when prices fall, it has not. Periods in which real wage rates have increased primarily through declining prices (such as 1920–22 and 1926–33) are associated with a falling off in union membership; whereas periods in which real wage rates have increased primarily through advances in money wage rates (such as 1936–39) are associated with a growth in union membership. If an increase in real wage rates is to serve as an achievement for the union, it must be channeled somehow through the bargaining procedure in which the union participates. The essential difference between higher wages and lower prices is that the resulting increase in real earnings is channeled through the bargaining procedure in the first instance and occurs independently of the bargaining procedure in the second.

# VI. THE INFLUENCE OF UNIONISM UPON EARNINGS

THE FOREGOING CHAPTERS have described how the negotiated wage bargain is affected by the institutional problems of the union and the personal problems of its leaders. Interactions between the organization and its members, and between the local union and the national office, were examined in chapter ii; rivalries among organizations and among leaders in chapter iii; and union-management relations in chapter v. We have argued that wage theory needs considerable overhauling in order to accommodate itself to collective wage determination as currently practiced.

It remains to ask how much difference all this makes in the distribution of income. A number of questions might be investigated. For example, what significance should be attached to the relative stability of "labor's share" in the aggregate national income? What is the relationship between union rates and nonunion rates within a given industry? Do hourly earnings in highly organized industries tend to be larger, and to increase more rapidly, than in less organized industries? The present chapter is addressed only to the last of these questions, although the others are fully as important.

Whether collective bargaining is a source of wage advantage has been an unsettled point in labor economics for many years. In the absence of any comprehensive demonstration, authoritative opinion has followed the conclusions of Paul H. Douglas, which are based upon his pioneering study of real wages over a thirty-six-year period.

Douglas distinguished between the early stage of labor organization and the more extended period following the initial gains. His summary statement on the point was as follows: "It is claimed by many that it is only through trade union organization and an improvement in bargaining power that the workers can improve their position. This bargain theory of wages is held so widely that it is well worth while to examine in some detail the history of the period which we are covering in order to determine as best we may the relative influence which unionism has actually exercised upon the course of real wages. During the nineties, and the early years of the present century, the unionists were able to secure for themselves appreciably higher wages and shorter hours than the mass of the workers. . . .

"Since 1914, however, the wages in the non-union manufacturing industries have risen at least as rapidly as have those in the union manufacturing trades. The evidence seems to indicate that when labor organization becomes effective, it yields very appreciable results in its

early stages, but that thereafter the rate of gain enjoyed by its members tends to slow down to a speed which does not appreciably exceed that of the non-union industries."[1]

These conclusions have been accepted in more recent literature with considerable hesitation, inasmuch as Douglas' investigation was limited to six unionized industries with a high proportion of skilled workers on hourly rates and eight nonunion industries with a high proportion of unskilled and semiskilled workers on piece rates. However, his evidence has been regarded as the best available. Millis and Montgomery, for example, state that "so far as the circumstantial evidence is concerned . . . , it seems impossible to attribute to trade unionism great influence in bringing about the rise in real earnings."[2]

More inclusive statistical material which is now available makes it possible to arrive at a more definitive statement on the question.

Part i of this chapter, "Unionism and Earnings, 1933–45," shows that real hourly earnings in highly organized industries are not only higher, but also have risen more sharply, than in less organized industries. Before it is concluded that degree of organization has been a strong influence affecting relative wage levels and movements, a number of alternative explanations are considered in part ii.

The 1933–45 period was one of rapid organization, during which union membership increased from less than three million to more than fourteen million. Douglas' evidence covers the 1890–1926 period, many years of which were characterized by stable or declining union membership. Part iii is devoted to a reëxamination of his statistics. It is argued that there is a serious methodological error in the interpretation of his statistics, and that, properly interpreted, they show that unionism was a source of material wage advantage for the thirty-six years as a whole and during the period after 1914.

## I. Unionism and Earnings, 1933–45

The twelve years from 1933 to 1945 were, as noted above, similar to the first half of the thirty-six years included in Douglas' study, in that union membership and collective bargaining expanded rapidly.

Douglas concluded that "during the nineties, and the early years of the present century, the unionists were able to secure for themselves appreciably higher wages and shorter hours than the mass of the workers."[3]

Curiously enough, this statement does not seem to follow from his indexes of real earnings in unionized and nonunion industries. The

[1] Paul H. Douglas, *Real Wages in the United States, 1890–1926* (Boston, 1930), p. 562.

[2] Harry A. Millis and R. E. Montgomery, *Labor's Progress and Some Basic Labor Problems* (New York, 1938), p. 213.

[3] Douglas, *op. cit.*, p. 562.

weighted average index for the six unionized industries, on an 1890–99 base, stood at 102 in 1895, 98 in 1900, and 96 in 1914. The same index for the eight nonunion industries stood at 100 in 1895, 99 in 1900, and 106 in 1914.[4] There are no other statistics in the volume which would lead to the conclusion, and there is no explanation for the apparent discrepancy between the tables and the text.

In any case, we have better sources of information today than were available to Douglas and are therefore in a better position to appraise the influence of unionism upon earnings during a period of rapid organization.

The Bureau of Labor Statistics publishes information on average hourly earnings by industry, which can be converted into estimated straight-time hourly earnings with the use of coefficients for eliminating the influence of overtime payments. It also periodically classifies a comprehensive list of industries according to the percentage of workers covered by collective agreements; this is the best available measurement of the relative degree of organization in various lines of economic activity.

Table 4 (see p. 116) shows estimated straight-time hourly earnings in January, 1945, for sixty-five manufacturing and extractive industries, divided into four groups according to the percentage of employees under agreement in 1945. Other activities (such as retail trade, finance, hotels and restaurants, and service industries) are excluded because they are not strictly comparable with manufacturing and extractive industries with respect to wage comparisons; if they had been included, they would have reinforced the tendency apparent in table 4. Among the manufacturing and extractive industries, the only bases of selection were (*a*) the availability of information on earnings and degree of unionization and (*b*) consistency of industry definitions. It is believed that a fairly good coverage was achieved; there were 8,536,000 production workers in these sixty-five industries as of December, 1945, compared with 10,568,000 in all manufacturing and extractive industries.[5] With a coverage of more than 80 per cent, there is no reason to believe that there is any bias as between the industries represented in table 1 and those omitted for lack of information.

It does not necessarily follow, of course, that the higher hourly earnings in the more highly unionized industries have been caused by unionism. Before coming to this conclusion, it is necessary to examine a

[4] *Ibid.*, pp. 98 and 104.

[5] *Monthly Labor Review*, 62 (April, 1946): 683–689. It was necessary to estimate the number of production workers in two extractive industries: crude petroleum and natural gas, and nonmetallic mining and quarrying.

number of alternative hypotheses which might explain the statistical relationship. This is done in part ii below.

However, there is another set of questions to be answered first. Do the higher earnings in the more highly unionized industries merely reflect the fact that these industries have always been better paid? In other words, do they represent merely a continuation of wage differentials

TABLE 4

ESTIMATED STRAIGHT-TIME HOURLY EARNINGS, JANUARY, 1945, IN SIXTY-FIVE MANUFACTURING AND EXTRACTIVE INDUSTRIES, CLASSIFIED ACCORDING TO PERCENTAGE OF WORKERS COVERED BY UNION AGREEMENT IN 1945

GROUP I: 80–100 PER CENT UNDER AGREEMENT

| | | | |
|---|---|---|---|
| Newspaper printing | $1.243 | Nonferrous metals and products | $0.992 |
| Shipbuilding | 1.243 | Beet sugar | .997 |
| Automobiles | 1.225 | Metal mining | .963 |
| Anthracite coal | 1.131 | Glass and glassware | .922 |
| Bituminous coal | 1.123 | Leather tanning | .898 |
| Basic steel | 1.102 | Cement | .874 |
| Aircraft | 1.097 | Wool carpets and rugs | .870 |
| Breweries | 1.062 | Men's clothing | .850 |
| Rubber products | 1.057 | Meat packing | .829 |
| Agricultural equipment | 1.047 | Cane sugar | .786 |
| Women's clothing | 1.040 | | |

*Weighted average, $1.069*

GROUP II: 60–80 PER CENT UNDER AGREEMENT

| | | | |
|---|---|---|---|
| Locomotives | $1.237 | Steel products[a] | $0.977 |
| Petroleum refining | 1.176 | Coal products | .978 |
| Railroad cars | 1.109 | Millinery | .975 |
| Machine tools | 1.044 | Rayon yarn | .868 |
| Felt hats | 1.042 | Paper and pulp | .819 |
| Machinery, machine-shop products | 1.030 | Woolen and worsted textiles | .812 |
| Book and job printing | .991 | Tobacco products | .696 |
| Electrical machinery, etc. | .987 | | |

*Weighted average, $0.969*

GROUP III: 40–60 PER CENT UNDER AGREEMENT

| | | | |
|---|---|---|---|
| Silverware and plated ware | $0.946 | Leather luggage | $0.779 |
| Jewelry | .914 | Canning and preserving | .774 |
| Cereal preparations | .886 | Boots and shoes | .768 |
| Stone and clay products[b] | .842 | Hosiery | .763 |
| Furniture | .814 | Knitted outerwear and gloves | .756 |
| Baking | .790 | Lumber and timber basic products | .753 |
| Boot and shoe cut stock and findings | .784 | Dyeing and finishing textiles | .725 |
| Leather gloves and mittens | .783 | Knitted cloth | .697 |
| Flour | .780 | Knitted underwear | .649 |

*Weighted average, $0.866*

TABLE 4—*Continued*

GROUP IV: 0–40 PER CENT UNDER AGREEMENT

| | | | |
|---|---|---|---|
| Crude petroleum and natural gas | $1.088 | Confectionery products | $0.723 |
| Chemicals[c] | .905 | Silk and rayon textiles | .697 |
| Nonmetallic mining and quarrying | .812 | Condensed and evaporated milk | .687 |
| Paper products[d] | .790 | Butter | .681 |
| Nonalcoholic beverages | .766 | Cotton manufacturers | .621 |
| Ice cream | .761 | | |

*Weighted average, $0.749*

NOTE: I gladly acknowledge Miss Elizabeth Cothrin's help in the preparation of this table.—A. M. R.

SOURCES: *Monthly Labor Review*, 50 (November, 1942): 1054, 60 (April, 1945): 897–903, 62 (April, 1946): 568, 683–689.

Data on average gross hourly earnings and average hours per week are published in the *Monthly Labor Review*. Straight-time hourly earnings were estimated by using the Bureau of Labor Statistics' coefficients for removing overtime payments from gross hourly earnings (see *Monthly Labor Review*, 44 [November, 1942]: 1054). These coefficients are not always reliable in their application to specific industries, for the reason that a given figure representing average weekly hours (e.g., 45) may include a greater or lesser proportion of overtime hours. However, it is believed that the estimates of straight-time hourly earnings are sufficiently accurate for the purposes of this article, and that the coefficients for the elimination of overtime do not introduce any bias among the four groups of industries.

The weighted averages of the four groups were computed on the basis of the number of production workers in each industry as of December, 1945. The month of December was chosen because the distribution of employment among industries was more nearly normal at that time than it was during the earlier month, before the termination of hostilities.

[a] Excluding basic steel (in Group I).
[b] Excluding cement (in Group II).
[c] Excluding rayon yarn (in Group II).
[d] Excluding paper and pulp (in Group II).

which were in effect before the advent of labor organization? Or do they indicate that wages have risen more rapidly in these industries?

In order to answer these questions, we must make an analysis of relative wage movements in the four groups of industries over a period of time stretching back to the preunion period. Such an analysis, covering the period 1933–45, leads to the following conclusions:

*a*) The better paid and more highly organized industries of 1945 were also better paid in 1933, when they were still nonunion.

*b) However, real earnings in the highly organized industries have increased to a greater extent than have those in the less organized industries.*

The evidence on these points is presented in table 5. Before this table is examined, a few words should be said concerning the statistical procedure which was employed in constructing it.

1. The most fundamental question is whether increases in earnings should be measured in dollars and cents or in percentages, for the purpose of comparing one industry with another. The choice of method will often determine the outcome of a comparison. For example, hourly earnings in Industry A move from $0.20 to $0.50, an increase of $0.30, or 150 per cent; those in Industry B move from $0.60 to $1.20, an increase of $0.60, or 100 per cent. In percentage terms, hourly earnings in Industry A have shown the greater increase; in absolute terms, hourly earnings in Industry B.

TABLE 5

PERCENTAGE INCREASE IN REAL HOURLY EARNINGS (ON A STRAIGHT-TIME BASIS), JANUARY, 1933–JANUARY, 1945, IN FORTY-FOUR MANUFACTURING AND EXTRACTIVE INDUSTRIES, CLASSIFIED ACCORDING TO AVERAGE HOURLY EARNINGS IN JANUARY, 1933, AND EXTENT OF UNIONIZATION IN 1945

| Wage class (average hourly earnings, Jan., 1933) | Group I: 80–100 per cent under agreement | | Group II: 60–80 per cent under agreement | |
|---|---|---|---|---|
| | Industry | Percentage of increase in real hourly earnings | Industry | Percentage of increase in real hourly earnings |
| A: | (Not tabulated; less than two industries) | | Woolen and worsted textiles | 73.5 |
| | | | Tobacco products | 71.2 |
| $0.250–0.399 | | | | |
| | | | *Weighted average* | *72.7* |
| B: | Bituminous coal | 71.0 | Railroad cars | 71.4 |
| | Beet sugar | 68.0 | Steel products[a] | 54.0 |
| | Basic steel | 67.6 | Rayon yarn | 46.6 |
| $0.400–0.499 | Wool carpets and rugs | 59.6 | Paper and pulp | 40.9 |
| | Agricultural equipment | 56.8 | | |
| | Glass and glassware | 54.8 | | |
| | Nonferrous metals, smelting and refining | 53.6 | | |
| | Metal mining | 49.0 | | |
| | Cement | 44.8 | | |
| | Cane sugar | 40.6 | | |
| | Meat packing | 37.7 | | |
| | *Weighted average* | *61.4* | *Weighted average* | *52.4* |
| C: | Automobiles | 62.0 | Locomotives | 72.0 |
| | Shipbuilding | 53.0 | Machines and machine-shop products | 47.2 |
| | Rubber products | 43.5 | Petroleum refining | 37.3 |
| $0.500–0.650 | Aircraft | 22.4 | Machine tools | 35.9 |
| | | | Electrical machinery, etc. | 22.0 |
| | *Weighted average* | *50.6* | *Weighted average* | *34.0* |

NOTE: I am glad to acknowledge the assistance of Miss Elizabeth Cothrin in the preparation of this table.—A. M. R.
SOURCES: *Monthly Labor Review*, 36 (March, 1933): 66; also sources listed under table 4.
[a] Excluding basic steel. [b] Excluding cement. [c] Excluding rayon yarn.

TABLE 5—*Continued*

| Wage class (average hourly earnings, Jan., 1933) | Group III: 40–60 per cent under agreement | | Group IV: 0–40 per cent under agreement | |
|---|---|---|---|---|
| | Industry | Percentage of increase in real hourly earnings | Industry | Percentage of increase in real hourly earnings |
| A: | Hosiery | 81.0 | Silk and rayon products | 70.6 |
| | Lumber and timber basic products | 75.9 | Confectionery products | 61.2 |
| $0.250–0.399 | Furniture | 71.6 | Nonmetallic mining and quarrying | 51.1 |
| | Canning and preserving | 58.3 | | |
| | Knit goods | 57.8 | | |
| | Dyeing and finishing textiles | 38.4 | | |
| | *Weighted average* | *69.8* | *Weighted average* | *63.2* |
| B: | Pottery | 59.2 | (Not tabulated; less than two industries) | |
| | Stone and clay products[b] | 50.1 | | |
| | Silverware and plated ware | 49.7 | | |
| $0.400–0.499 | Jewelry | 38.6 | | |
| | Baking | 34.2 | | |
| | Flour | 32.9 | | |
| | *Weighted average* | *42.3* | | |
| C: | (Not tabulated; less than two industries) | | Crude petroleum and natural gas | 38.6 |
| | | | Chemicals[c] | 28.1 |
| $0.500–0.650 | | | Nonalcoholic beverages | − 7.8 |
| | | | *Weighted average* | *28.9* |

Estimated straight-time hourly earnings in January, 1945 (computed as described in footnote to table 4), were deflated to a January, 1933, cost-of-living basis. The Bureau of Labor Statistics' Index of Consumer Prices—All Items (1935–39=100) for January, 1933, was 93.5; and for January, 1945, 127.1. Consequently, a coefficient of .736 was used for the purpose of deflation (127.1÷93.5=1.359, the reciprocal of which is .736). It was assumed that average hourly earnings as reported for January, 1933, could be regarded as straight-time earnings, inasmuch as the payment of overtime premiums to production workers was exceptional at that time. Index numbers of real straight-time hourly earnings (January, 1933=100) were then calculated for each industry. The weighted averages reflect the same weights as do those in table 4. Reasons for excluding certain industries are explained in the text.

Neither method is fully satisfactory by itself. To rely entirely on an absolute standard would imply that an increase from $1.25 to $1.50 is as "large" as an increase from $0.25 to $0.50. If the absolute standard should be adopted as the sole basis for equitable comparison, it would imply an extreme compression of percentage differentials during a period in which price levels as well as earning levels move up. If applied to questions of internal wage structure, such a rule of equity would eventually result in a virtual equalization of the real earnings of skilled and unskilled workers. Since the absolute standard is not feasible as a rule of equity, neither is it adequate as an index of measurement.

By the same token, the percentage increase is equally unsatisfactory as a single index of measurement or rule of equity. It simply does not make sense to say that, in an industry in which hourly earnings have increased from $0.15 to $0.30, the workers have "done as well" as those in another industry where earnings have increased from $0.50 to $1.00. An increase of $0.15 cannot reasonably be equated with an increase of $0.50. Every experienced labor arbitrator knows that he cannot afford to give sole consideration to percentage differentials or percentage increases in the making of equitable comparisons.

There is a further basic objection to the use of either standard as a method of comparing the increases which have taken place in industries which started off from different absolute levels. There are low-paid and high-paid industries, just as there are low-paid and high-paid occupations within a given industry. The differences between the low-paid and the high-paid industries can be expressed by absolute differentials (cents per hour) or by percentage differentials, and, as already noted, movements of earnings can be expressed in either form.

Now, it is almost universally true that as the general level of earnings throughout the economy advances during any considerable period, absolute differentials are widened and percentage differentials are narrowed. This means that (in the absence of any counteracting influence) the high-paid industries enjoy a larger dollar increase and a smaller percentage increase than the low-paid industries, and vice versa. The tendency can be observed to operate, not only between high-paid and low-paid industries, but also between skilled and unskilled occupations within an industry and between high-wage and low-wage regions and areas. It represents a kind of natural compromise between the absolute principle and the percentage principle. This is why labor arbitrators, who are frequently called upon to examine historical relationships in the adjudication of wage disputes, realize that neither type of relationship should be unduly emphasized at the expense of the other.[6] A given per-

[6] See Z. Clark Dickinson, *Collective Wage Determination* (New York, 1941), pp. 260–261.

centage adjustment will alter the absolute differentials, and vice versa. In practice, the aggregate wage increase over an extended period of time will represent both adjustments, with a resulting compression of percentage differentials and dispersion of absolute differentials.

It follows that neither principle will serves as a satisfactory standard for measuring relative "wage advantage" over a period in which wages have generally risen. The absolute standard will introduce an artificial bias in favor of the high-wage industries, and the percentage standard in favor of the low-wage industries.

The fact is that there is no meaningful basis for comparing the wage increases, or indicating relative "wage advantage," among industries which have started off from radically different absolute levels.

However, when a large number of industries are involved, they can be grouped into "wage classes" according to the level of average hourly earnings at the beginning of the period. If the ranges are not too great, it is perfectly legitimate to compare percentage increases of various industries within each class.

This procedure has been followed in the construction of table 5. It was found that sixty-one of the sixty-five industries in table 1 had hourly earnings between $0.25 and $0.65 as of January, 1933. It was decided to use three wage classes: A, $0.25–$0.399; B, $0.40–$0.499; and C, $0.50–$0.65. Cotton textiles, anthracite coal, newspaper printing, and book and job printing were eliminated because their hourly earnings were less than $0.25 or more than $0.65 in January, 1933. The last three of the industries would have been eliminated in any event, because they were substantially unionized in January, 1933 (see immediately below).

2. Some of the industries listed in table 4 had a substantial degree of unionization in January, 1933; the great majority did not, because this was the low-water mark of unionization since 1916.[7] It is often argued that the influence of unionism upon the level of hourly earnings in an industry will depend to a significant extent upon the length of time during which the union has been well established. Therefore, it seemed desirable to eliminate the element of heterogeneity which would have resulted from the intermingling of long unionized and newly unionized industries. The following seven industries were excluded from table 2 on the ground that they were substantially organized in January, 1933: men's clothing, women's clothing, leather, boots and shoes, anthracite coal, newspaper printing, and book and job printing. For this purpose, union coverage of 25 per cent or more was regarded as "substantial."[8]

[7] See Florence Peterson, *American Labor Unions* (New York, 1945), p. 56.

[8] For information on degree of unionism in January, 1933, Leo Wolman's *Ebb and Flow in Trade Unionism* (New York, 1936) was relied upon. See chaps. vii and viii, pp. 84–134.

(The first two would have been eliminated in any case because of the lack of reliable data concerning average hourly earnings in January, 1933; the last three had already been eliminated because of average hourly earnings exceeding $0.65 on that date.) The forty-four industries shown in table 5 were all at least 75 per cent unorganized at the outset of the twelve-year period under consideration.

3. It was necessary to exclude a considerable number of industries for two additional reasons: (*a*) earnings data were not available for January, 1933, or (*b*) industries had been redefined by the Bureau of Labor Statistics in a manner incapable of rectification. In two cases, the redefinition of industries could be rectified; therefore a minor regrouping of activities was made.

4. Table 5 deals with increases in real earnings. It goes without saying that a comparison of changes in money earnings would have yielded results of identical significance. Proportions would have been altered slightly, but the order of increases would have been the same in all cases.

As stated above, two generalizations can be made after an examination of table 5.

*a*) The better-paid and more highly organized industries of 1945 were also better paid in 1933, when they were still nonunion. Among the twenty-six industries more than 60 per cent organized in 1945, nine had average hourly earnings of more than $0.50 in 1933, and only two had earnings of less than $0.40. Among the eighteen industries less than 60 per cent organized in 1945, six had earnings of less than $0.40 in 1933, and only three had earnings of more than $0.50.

*b*) However, real earnings in the highly organized industries have increased to a greater extent than have those in the less organized industries. This is clear from an examination of the weighted averages which are shown in table 6, and which are reproduced immediately below:

PERCENTAGE INCREASE IN REAL HOURLY EARNINGS, 1933–45

| Wage class (average hourly earnings, Jan., 1933) | Group I | Group II | Group III | Group IV |
|---|---|---|---|---|
| $0.250–$0.399 | Not tab.[a] | 72.7 | 69.8 | 63.2 |
| .400– .499 | 61.4 | 52.4 | 43.2 | Not tab.[a] |
| .500– .650 | 50.6 | 34.0 | Not tab.[a] | 28.9 |

[a] Not tabulated; less than two industries.

Within each of the three "wage classes" (reading horizontally), there is a consistent association between the degree of organization in 1945 and the increase in real hourly earnings over the preceding twelve-year period.

It is also worthy of note that within each of the four groups (reading vertically), there is a perfect inverse correlation between the original level of earnings and the magnitude of subsequent increases. Here is a clear corroboration of the point that a comparison of percentage increases is unreliable unless the industries start out from approximately the same level.

## II. Alternative Hypotheses

Are there any other differences among the four groups of industries, aside from degree of organization, which would account for the disparity in hourly earnings at one point of time and the uneven movement of earnings over a period of time?

As Millis and Montgomery state with respect to this problem, "There are, indeed, probably few problems concerning which it is easier to fall into vicious *post hoc, ergo propter hoc* reasoning."[9]

Therefore, it is essential to canvass other possibilities. It must be noted at the outset, however, that an alternative hypothesis must explain both the intergroup differences in table 4 and those in table 5.

By the same token, it is equally desirable to inquire whether the influence of unionism may not have been even greater than is expressed in the different levels and movements of earnings.

**Differences in Skill.**—An alternative explanation based upon differences in occupational composition would have had more weight when labor organizations were confined primarily to skilled workers than it has at the present time, when the majority of union members are enrolled in industrial unions. During recent years, a very considerable proportion of unskilled and semiskilled workers in the United States have become unionized.

It is probable that the highly unionized industries listed in table 4 do have a slightly higher proportion of skilled workers, all in all, than do the less unionized industries. That this cannot be regarded as full explanation of differentials in earnings is clear from an inspection of several pairs of industries from different groups. It will be noted that the lower-paid industry in each of the pairs has a proportion of skilled workers which is approximately as great as the proportion in the higher-paid industry, if not greater.

1. Newspaper printing (Group I, $1.243) and book and job printing (Group II, $0.991).

2. Automobiles (Group I, $1.225) and machine tools (Group II, $1.044).

3. Breweries (Group I, $1.062) and nonalcoholic beverages (Group IV, $0.766).

4. Woolen and worsted textiles (Group II, $0.812) and cotton manufactures (Group IV, $0.621).

[9] Millis and Montgomery, *op. cit.*, p. 213.

5. Women's clothing (Group I, $1.040) and knitted outerwear and gloves (Group III, $0.756).

6. Metal mining (Group I, $0.963) and nonmetallic mining and quarrying (Group IV, $0.812).

I conclude that the intergroup differentials in table 4 cannot be explained satisfactorily by differences in skill.

The skill factor appears to have even less weight as an explanation of the uneven movement of earnings which is shown in table 5. To rely upon this explanation would require a demonstration either (*a*) that the relative proportion of skilled workers in the Group I and Group II industries has increased in recent years (which cannot be demonstrated), or (*b*) that skill is weighted more heavily in the determination of wages than it was a decade ago (which is contrary to the belief of practically all students of wages that skill differentials have declined in recent years).

**Urban and Rural Industries.**—Labor economists are not in agreement whether or not there is an urban-rural wage differential which cannot be explained on occupational, industrial, or cost-of-living grounds. For example, Lester states in his *Economics of Labor,* "To a greater degree than is generally appreciated, geographic differences in wage rates are really due to occupational and industrial differences. . . . Furthermore, it is real wages that are important in examining geographic differentials. . . . The cost of food, housing, etc., for example, tends to be lower in rural districts, where money wages are also generally lower, than in metropolitan centers."[10]

If there is an urban-rural wage differential of independent standing, it might be invoked as an explanation of the intergroup differentials in table 4. But it could hardly explain the different movements in table 5. There is no reason to believe that the proportion of urban plants in Group I and Group II industries has increased relatively to that in the Group III and Group IV industries. There is even less reason to believe that the urban-rural differential has widened in recent years; this again would run counter to the general opinion of authorities in the field.

It is probably true that workers in urban areas are more receptive to unionism, and that employers in urban areas less resistant, than workers and employers in rural areas. However, this would not refute but only corroborate the hypothesis that unionism has been a source of wage advantage.

**Proportion of Women.**—A number of industries in Groups III and IV employ a considerable proportion of women. These include canning and preserving, knit goods, dyeing and finishing textiles, baking, silk and rayon products, and confectionery products. Although certain in-

[10] Richard A. Lester, *Economics of Labor* (New York, 1941), p. 209.

dustries in Groups I and II (such as woolen and worsted textiles, tobacco products, and rayon yarn) also employ women in large numbers, it is probable that, on balance, the proportion is greater in the less unionized industries.

Here again, the crucial question relates to table 2. Granting that the proportion of women may be related to intergroup wage levels, we must still ask whether or not it is related to intergroup wage movements, and if so, in what ways.

There are three ways in which the proportion of women employed might be related to the different movements of real earnings:

1. Sex differentials, like skill differentials, have tended to decline in recent years, when measured in percentage terms. Here again, this would not be a substitute explanation, because any influence would run in the other direction. The tendency would be for the hourly earnings in Groups III and IV to increase more quickly, instead of more slowly, than those in Groups I and II.

2. Women are regarded as more difficult to organize than men. Many do not intend to remain permanently in the labor force; others are timid and fearful. This may be true, and may have dampened the increase in hourly earnings in the Group III and Group IV industries, by restricting the spread of unionism. However, the female workers' weaker propensity to organize, like that of rural workers, does not contradict the hypothesis that unionism is a source of wage advantage.

3. It might be argued that the supply of women in the labor market has increased to a greater extent than the supply of men, because of changes in mores. As mentioned above, women are employed in large numbers in several of the low-wage industries (particularly the food and textile industries). If one believed that labor supply and demand still have something to do with wage determination, he might reason that the more pronounced increase in the supply of women has had a depressing effect upon wages in the Group III and Group IV industries. However, he would have to recognize that there has been a concurrent decline in the supply of child labor to the very same industries, which, by the same token, would have to be regarded as exercising a stimulating effect upon wages. One can only speculate about these factors, since there is no feasible method of weighing their influence. I do not believe they require any serious modification of the hypothesis, but readers may differ.

**Degree of Monopoly.**—The majority of the Group I and Group II industries are characterized by duopoly, oligopoly, or other forms of imperfect competition in the product market. Among these are basic steel, agricultural equipment, glass and glassware (with respect to plate

glass), automobiles, shipbuilding, rubber products, aircraft, railroad cars, locomotives, and bituminous coal (by virtue of the Guffey Act). On the other hand, the Group III and Group IV industries are predominantly competitive.

There is nothing in economic theory which implies that wages tend to be higher in monopolistic than in competitive industries. One might construct an argument that the monopolistic industries offer more in the way of surplus profits to be diverted into labor income. Presumably, however, they would not be so diverted without the pressure of labor organizations. It may be that the monopolistic industries have been organized more heavily because of their superior ability to pay; however, this would not be an alternative hypothesis, but rather a further reason why some industries have been organized sooner than others and an additional corroboration that unionism has been effective in raising wages.

Even if one were disposed to argue that, in the absence of unionism, monopolies are likely to pay higher wages, it would not follow that they are likely to *increase* their wages more rapidly over a twelve-year period. Lacking a demonstration of this kind, it would be necessary to prove that the degree of monopoly has been correspondingly accentuated.

**Expanding and Contracting Industries.**—Finally, one might argue that unionism has increased most rapidly in expanding industries, and that wages would have shown the greatest rise in such industries regardless of the extent of union organization. To anyone who knows how unions come to be organized, it is not plausible to assume that they would concentrate on the expanding industries and ignore the contracting industries. Nevertheless, the point is worth consideration.

A distinction among industries in terms of rate of expansion might conceivably have a cyclical reference. The year 1933 came at the bottom of a depression, and 1945 came at or near the top of a period of prosperity. The distinction would more commonly have a secular reference. Twelve years is sufficient time for differences in the rate and direction of secular development to show their effects upon the wage structure, if they have any effects.

1. On balance, Group I and Group II industries are more sensitive to cyclical influences than Group III and Group IV industries. The reason is that there is a larger concentration of capital good industries in the first category. However, Mr. Dunlop has shown that depression wage cuts are most likely to occur in those sectors of the economy in which production is maintained at lower prices, rather than in the sectors in which prices are maintained at lower levels of output. His conclusion is that "declines in product prices and not unemployment constitute the

effective downward pressure on wage structures."[11] Under collective bargaining, moreover, the effectiveness of the downward pressure is limited by the fact that "wage structures are bargained for in an essentially noncyclical time setting."[12]

2. In a secular reference, the objection would have more weight—if it could be verified. However, the highly unionized industries do not appear to be concentrated in the expanding sector of the economy. This conclusion emerges from two statistical checks which the author has made. To present these statistical checks in full detail would add immoderately to the length of this chapter, but they can be briefly summarized.

It was felt that an index of employment would be the most pertinent measure of secular growth or decline. It was felt also that the period between 1929 and 1945 would be appropriate for a statistical test. These were both years of high prosperity. The interval of sixteen years is sufficiently long to be significant. There were virtually no material changes in the pattern of unionization between 1929 and 1933; as a matter of fact, 1929 would have been selected as the base year for wage comparisons if adequate data for that year had been available.

It was possible to construct indexes of employment for December, 1945, on a 1929 base, for twenty-nine of the manufacturing industries included in tables 4 and 5. (Comparable data were not available, or industry definitions were not compatible, for the other industries.) The indexes were constructed by linking two B. L. S. series; indexes for December, 1945, on a 1939 base were linked with indexes for 1939 on a 1929 base. Averages were then computed for each of the four groups, weighted according to the number of production workers in each industry as of December, 1945. The weighted averages are as follows:

| | | |
|---|---|---|
| Group I | (10 industries) | 100.8 |
| Group II | (6 industries) | 108.4 |
| Group III | (8 industries) | 97.3 |
| Group IV | (5 industries) | 108.5[13] |

[11] John T. Dunlop, *Wage Determination Under Trade Unions* (New York, 1944), p. 146.

[12] *Ibid.*, p. 69.

[13] The twenty-nine industries are as follows: Group I: agricultural equipment, cane sugar, cement, glass and glassware, basic steel, automobiles, newspaper and periodical printing, nonferrous metals, rubber products, and meat packing; Group II: coal products, paper and pulp, petroleum refining, rayon yarn, tobacco products, and woolen and worsted textiles; Group III: boots and shoes, baking, canning and preserving, clay products, furniture, knit goods, leather products, and rubber products; Group IV: chemicals, confectionery, cotton manufactures, ice cream, and silk and rayon textiles.

SOURCES: United States Bureau of Labor Statistics, *Productivity and Unit Labor Cost in Selected Manufacturing Industries, 1919–1940* (Washington, 1942); *Monthly Labor Review*, 62 (April, 1946): pp. 683–688; table 4, above.

In view of the fact that indexes of employment were available for only twenty-nine industries, a further check was made. The twenty-nine industries were segregated into four classes, according to the December, 1945, index of employment: (1) less than 80, (2) 80–99.9, (3) 100–119.9, and (4) 120 and over. Within each of these classes, straight-time hourly earnings as of January, 1945, were strikingly correlated with degree of unionization. The significance of this test is that after isolating differences in secular employment changes, we find unionism and earnings still closely associated.

**Summary of Part II.**—Thus, there are certain differences, aside from the extent of labor organization, between the Group I and Group II industries, on the one hand, and the Group III and Group IV industries, on the other. There are a higher proportion of skilled workers, a greater concentration in urban areas, a smaller proportion of women, a higher degree of monopoly, and a greater sensitivity to cyclical influences among the industries in the first two groups. However, it appears upon examination that none of these factors will serve to explain away the evident association between unionism and earnings. Unionism does not appear to be concentrated in the expanding sector of the economy; and in any case, when we abstract from differences in secular change, unionism and earnings are still associated.

No one would deny that wages are affected by such factors as skill, location, and employment of women, and no one would assert that unionism is the *only* influence. The truth seems to be that wages are affected by all the factors which are customarily stressed and *also* by degree of unionism.

As a matter of fact, the influence of unionism has probably been greater than is indicated by variations in the movement of hourly earnings. Wage increases achieved through collective bargaining are, to a considerable extent, eventually diffused into the nonunion sector. They serve as a standard of equity for unorganized workers and as a pattern of adjustment for nonunion employers. Moreover, as Millis and Montgomery point out, "... the potential fear of labor organization may be a powerful force in keeping up wages in non-unionized industries."[14] The differentials in the movements of hourly earnings represent that part of the increase which has not been diffused evenly throughout the economy.

## III. Unionism and Earnings, 1890–1926

We may now turn to the question whether or not unionism has any substantial influence on earnings over a longer period, that is, beyond the period of rapid organizational gains. Douglas' negative finding on

[14] *Op. cit.*, p. 213.

the point has been accepted by later authors. Reappraisal of Douglas' statistics, however, leads to the opposite conclusion.

*Real Wages in the United States* deals with the thirty-six years between 1890 and 1926. The use of the collective bargaining was never widespread during those years; total union membership exceeded four mil-

TABLE 6

AVERAGE HOURLY EARNINGS AND INDEX OF REAL EARNINGS, FOURTEEN INDUSTRIES, 1890 AND 1926

| Industry | Average hourly earnings | | Index of real earnings (1890–99 = 100) | |
|---|---|---|---|---|
| | A 1890 | B 1926 | C 1890 | D 1926 |
| Cotton | $0.097 | $0.326 | 98 | 143 |
| Hosiery and knit goods | .113 | .441 | 102 | 172 |
| Woolens | .121 | .491 | 97 | 169 |
| Clothing | .143 | .750 | 95 | 215 |
| Lumber | .150 | .361 | 101 | 104 |
| Boots and shoes | .169 | .528 | 95 | 128 |
| Slaughtering and meat packing | .174 | .494 | 101 | 123 |
| Iron and steel | .229 | .637 | 103 | 121 |
| *Nonunion group* | *.149* | *.488* | *99* | *140* |
| Baking | .204 | .925 | 96 | 187 |
| Book and job printing | .290 | 1.037 | 95 | 145 |
| Planing mills | .293 | 1.027 | 98 | 144 |
| Metal trades | .319 | .961 | 97 | 126 |
| Granite and stone | .405 | 1.301 | 96 | 133 |
| Newspaper printing | .440 | 1.150 | 97 | 106 |
| *Unionized group* | *.324* | *1.007* | *95* | *127*[a] |

SOURCE: Douglas, *op. cit.*, pp. 96, 98, 101, and 104.

[a] The composite index for unionized industries is heavily weighted by metal trades and newspaper printing.

lion in only four years (1919–22) and actually declined during at least ten years.[15]

Douglas computed time series of average hourly earnings and index numbers of money earnings and real earnings for fourteen manufacturing industries, eight of which were classified as nonunion and six as unionized. Table 3 shows these indexes, along with his estimates of average hourly earnings, for the terminal years of the study.

The 1926 index of real earnings for the nonunion group as a whole (on an 1890–99 base) stood at 140, compared with 126 for the unionized group as a whole. If these indexes are reliable guides, unionism can hardly be regarded as a source of wage advantage between 1890 and 1926.

[15] Peterson, *op. cit.*, p. 56.

There are three minor points to be made in appraising the indexes. (1) Douglas' material on real earnings in manufacturing covers only fourteen industries and is therefore not comprehensive. His indexes are not necessarily representative of all nonunion and all unionized industries during the period studied.[16] (2) Clothing, which has the highest index of any industry for 1926 (215), is included in the nonunion group, but actually was rather heavily organized during the last decade of Douglas' study. Wolman states that 55.8 per cent of the wage earners in the clothing industry were union members in 1925.[17] Inasmuch as the combined membership of the Amalgamated Clothing Workers and the International Ladies Garment Workers fell by about one-third between 1920 and 1925,[18] it is probable that the industry was even more highly organized in 1920. (3) The 1926 index for the unionized group as a whole is lower than that of four of the individual industries, and only one point higher than one of the remaining two. The reason is that the two industries with the lowest indexes (metal trades and newspaper printing) are given a combined weight of twenty-one out of thirty-seven. But there is a more fundamental objection against the inference which has been drawn from these index numbers. The nature of the objection should be clear from the discussion in a preceding section of this article, in which it was argued that sole reliance on percentage changes as a measurement of wage increases is extremely dangerous. An index number, of course, is a percentage relationship.

Suppose that Douglas had relied upon absolute change as a measurement. Average hourly earnings of the unionized group rose 68 cents between 1890 and 1926, whereas those of the nonunion group increased by only 34 cents. The 1926 index of real earnings for planing mills (a unionized industry) was practically identical with that of cotton (a nonunion industry); but average hourly earnings of the first had advanced 76 cents, compared with 23 cents for the second. Can one declare with certainty that the planing mill workers fared no better than the cotton mill workers? This is implied when a 76-cent increase is deemed equivalent to a 23-cent increase, on the ground that each represents an improvement in real earnings of approximately 44 per cent. It is not claimed that absolute change is a satisfactory form of measurement for the purpose of interindustry comparison. It is no less satisfactory than percentage change, however.

[16] This comment is not intended to detract from the justified esteem in which the work is held by economists. Instead, it points to the contrast between the comprehensive labor statistics available today and the lack of such material twenty years ago. No one can read *Real Wages in the United States* without developing a lasting admiration for the scholarship, originality, and energy that were devoted to its preparation.

[17] Wolman, *op. cit.*, p. 124. [18] *Ibid.*, p. 100.

As earnings throughout the economy move up over an extended period of time, percentage differentials are naturally compressed and absolute differentials are dispersed. Therefore, one would expect that over such an extended period as 1890–1926, percentage differentials between the low-wage and high-wage industries would tend to diminish, unless counteracted by some other influence. This means that the index numbers for the low-wage industries would be likely to advance at a more rapid rate.

RECAPITULATION OF CERTAIN INDUSTRIES LISTED IN TABLE 6

| Industry | Average hourly earnings, 1890 | Index of real earnings, 1926. 1890–99 = 100 | Index of real earnings, 1926. 1914 = 100 |
|---|---|---|---|
| Nonunion group | | | |
| Lumber | $0.150 | 104 | 107 |
| Boots and shoes | .169 | 128 | 126 |
| Slaughtering and meat packing | .174 | 123 | 142 |
| Iron and steel | .229 | 121 | 122 |
| *Unweighted average* | *.181* | *119* | *132* |
| *Weighted average*[a] | *.188* | *118* | *122* |
| Unionized group | | | |
| Baking | .204 | 187 | 156 |
| Book and job printing | .290 | 145 | 132 |
| Planing mills | .293 | 144 | 146 |
| *Unweighted average* | *.262* | *159* | *143* |
| *Weighted average*[a] | *.256* | *161* | *146* |

[a] Using Douglas' weights.

This is precisely what happened in this period, *within* the nonunion group and *within* the unionized group. A glance at table 6 will indicate that the increase in real earnings over the period was fundamentally influenced by the level of absolute earnings at the outset. The correlation is not perfect, but is too obvious to be ignored. The first four nonunion industries, with hourly earnings ranging from $0.097 to $0.143 in 1890, had index numbers averaging 175 in 1926; the second four, with 1890 hourly earnings of $0.150 to $0.229, had index numbers averaging 119. The average of 1926 index numbers of the three lowest-paid unionized industries was 159; that of the three highest was 118.

A comparison of relative percentage movements in real earnings is of little significance except when the industries start off from approximately the same level. When this is taken into account, Douglas' statistics yield a markedly different interpretation than that which is commonly placed upon them.

Average hourly earnings of the nonunion group in 1890 were all considerably lower than those in the unionized group, except that iron and steel was somewhat higher than the baking industry. This fact, which is the cause of bias in the data, makes it difficult to appraise the extent to which unionism was a source of advantage with respect to improvements in real earnings. An approximation may be secured, however, by limiting ourselves to those industries with 1890 hourly earnings of not less than 15 cents and not more than 30 cents—a spread of 100 per cent.

There were four nonunion and three unionized industries conforming to these limits. Despite the fact that the average hourly earnings of the later were considerably higher than those of the former, their improvement in real earnings between 1890 and 1926 was also much greater: 61 per cent as compared with 18 per cent. Each of the three unionized industries advanced more rapidly than any of the four nonunion industries.

If we confine ourselves to the last third of the thirty-six-year period, the results are not materially different. As the last column of the tabulation shows, real earnings in the three unionized industries increased 46 per cent between 1914 and 1926, compared with 22 per cent for the four nonunion industries.

Thus, it is evident that Douglas' statistics must be reëxamined and reappraised. It is hazardous to generalize on the basis of a small number of industries; but if the statistics have any significance, it is exactly the opposite of that which has been ascribed to them. They indicate that unionization was a decided source of wage advantage and a real influence on relative earning movements in the 1890–1926 period.

## IV. Implications

The central finding of this chapter can be stated simply. Real hourly earnings have advanced more sharply in highly organized industries than in less unionized industries, in periods of stable or declining union membership as well as periods of rapid organization. No reason has been found to believe that the relationship is coincidental.

What are the consequences of this fact? Since the time of Malthus, wage theorists have had a ready answer, which has varied in form more than in substance. Subsistence theorists would have predicted new mouths to be fed. Wage fund theorists would have argued that organized labor benefits at the expense of the unorganized. Marginal productivity theorists would reason that employment must have been reduced in the organized industries below what it would otherwise have been; that a maldistribution of labor supply must have been effected; and that capital may have been consumed. Modern labor economists would point to

the danger of nonunion competition. Thus, all orthodox schools of economic thought would emphasize the unfavorable effects of union wage regulation.

There are serious limits to the adequacy of empirical investigation when addressed to questions of this kind. They lie in the realm of "might have been"—of what would otherwise have happened. The problem of what would have happened to labor costs, profit rates, and employment in the absence of labor organizations is probably not susceptible of penetration by statistical research. Negative statistical findings do not prove anything, but merely shift the burden of proof.

We can ascend to the level of deductive speculation, but here also the problems are fairly subtle. Before deciding whether unionists have benefited at the expense of the unorganized, we must first decide whether the real national income, and labor's share of the national income, would have been smaller or larger in the absence of unionism. In other words, have the unorganized workers received a smaller part of a larger share of a larger national income, or a smaller part of a larger share of a smaller income, *et cetera?*

Before concluding that employment has been reduced in the organized industries, we must first determine the extent to which labor demand is really affected by changes in unit labor cost. We must also make an allowance for the reciprocal effect of any change in total national income which may have resulted from the activities of labor organizations. Certainly the problem has become considerably more complicated since the time when many persons believed that Mr. Hicks had provided an unassailable answer in *The Theory of Wages.*

Before deducing that a maldistribution of labor supply has been effected, we must first assume that the wage structure of an unorganized economy provides for an optimum distribution, or at least a better distribution than the wage structure of a partially organized economy.

Others are better equipped than the writer to proceed at this level. It is hoped that they will consider it worth while and that the implications will not be entirely inscrutable.

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